Austria .... Sch 18	Indonesia .. Rp 2500	Portugal .. Esc 80
Bahrain .. Din 0.650	Italy ...... L 1300	S Arabia .. Rs 6.00
Belgium ... BFr 42	Japan Y550	
Canada ... C$1 00	Jordan ... Fils 500	Singapore . S$4 10
Cyprus ... C£0 80	Kuwait ... Fils 500	Spain ..... Pta 110
Denmark .. Dkr 7.25	Lebanon ... £L 8 00	Sri Lanka .. Rup 30
Egypt £E1 00	Luxembourg . LFr 42	Sweden .... Skr 6.50
Finland .. Fmk 6 00	Malaysia ... Rm 4 25	Switzerland SFr 2.20
France .. Fr 8.00	Mexico .. Pes. 300	Taiwan ... NT $85
Germany . DM 2 20	Morocco .. Dh 8.00	Tunisia .. Din 0.600
Greece .... Dr 70	Netherlands . Fl 2 50	Turkey .... L 210
Hong Kong . HK$ 12	Norway .. Nkr 8.00	U.A.E. .... Dh 8 50
India .... Rup. 15	Philippines . Pes. 20	U.S.A. $1 00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,752 | Monday October 14 1985 | D 8523 B

What is behind the big spending at Daimler-Benz, Page 21

World news | Business summary

U.S. to review missiles treaty

The Reagan Administration is to reconsider its claim that the development of space weapons such as those in the "star wars" Strategic Defence Initiative is authorised by the 1972 Anti-Ballistic Missile (ABM) Treaty.

The Administration modified its position after a hostile reaction from its allies, members of Congress and arms control experts.

President Ronald Reagan had said in his weekly radio broadcast that both research and testing of SDI projects were permitted under the terms of the Treaty. Page 3

Anti-missile clash

Dutch police said they arrested 26 anti-nuclear demonstrators after clashes at a base at Woensdrecht, southern Netherlands, where cruise missiles may be deployed if the Dutch Government decides to accept them.

Bush in Peking

U.S. Vice-President George Bush arrived in Peking for the start of a six-day visit intended to strengthen trade ties between the two countries despite differences on Taiwan. Page 3

Mandela release call

South Africa's main white opposition party, the Progressive Federal Party, and the African National Congress (ANC) issued a joint statement calling for the release of Nelson Mandela and other jailed dissidents after a day of talks in Lusaka, the Zambian capital.

Poles vote

Solidarity leaders Jacek Kuron and Zbigniew Romaszewski were detained by police for questioning as Polish officials reported a satisfactory turnout in the general elections which the banned trade union movement had attempted to boycott.

W. German protests

West German unions representing nearly 8m workers today begin a week of action in protest at the record unemployment level of 2.3m, climaxing next Saturday with rallies in 18 cities.

Tamil peace summit

Sri Lanka's peace talks on the communal violence involving the Tamil population depend on a meeting between President Jayewardene and Mr Rajiv Gandhi, the Indian Prime Minister, during the Commonwealth conference starting this week in the Bahamas, a Tamil leader said in New Delhi.

Award for mayor

Jerusalem mayor Teddy Kollek was awarded a DM 25,000 ($9,500) prize by the German Publishers' and Booksellers' Association for his efforts to create peace between Arabs and Jews.

Air emergency

Several people were injured when a Kuwaiti Airways plane flying to Kuwait had to turn back to Bombay Airport for an emergency landing after detecting an engine fault.

Minister attacked

Switzerland's Foreign Minister Pierre Aubert has been strongly criticised both at home and in Egypt for a statement earlier this month that Cairo had asked him to act as a go-between in the Middle East peace process.

PLO low on funds

The Palestine Liberation Organisation is close to bankruptcy because some Arab countries have not made their promised financial contributions, a PLO official told a Qatari newspaper.

Soviets unafraid

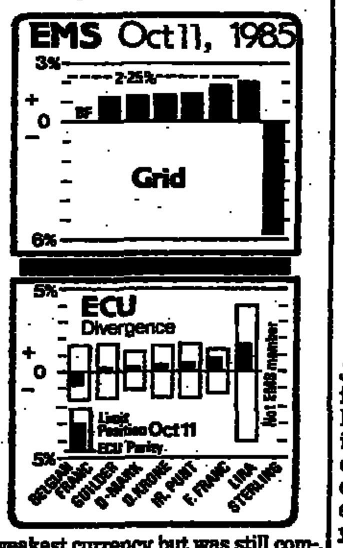
The AIDS epidemic scare which has swept the West is not a threat in the Soviet Union, according to a Soviet newspaper.

Daimler and AEG link in major deal

DAIMLER BENZ, West German vehicles manufacturer, and AEG, electricals concern, are to be linked by a major industrial deal which the boards of both companies approved this weekend.

Details of the agreement will be announced at a press conference today in Stuttgart, but it is understood that Daimler is likely to have taken a majority stake in AEG. The price tag on this is an estimated DM 1bn ($385m), and would create West Germany's biggest industrial enterprise. Page 18

EUROPEAN Monetary System: Most currencies were a little weaker against the dollar, despite further central bank intervention. As the D-Mark lost ground to the dollar, so weaker members of the EMS recovered in terms of the D-Mark. The Belgian franc remained the weakest currency but was still comfortably within its divergence limit. Trading volume was lower than usual as markets awaited developments, following the meeting of finance ministers in Seoul.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

U.S. Department of Transportation gave initial approval to the $750m sale of Pan Am's Pacific operations to United Airlines, despite objections from other carriers. Page 19

ZIMBABWE has signed an agreement to buy 10 transport helicopters from Italy's Agusta company at a cost of $10m.

U.S. banks' attempts to scrap the system under which all IMF creditors are obliged to put up cash for fresh borrowing by heavily-indebted countries, in direct proportion to their existing exposure, have been rejected by other members. Page 19

INFLATION rate throughout the EEC should average less than 4 per cent next year, the lowest level since the late 1960s, according to Commission forecasts. Page 2

BRITISH Aerospace has finalised negotiations to sell India 11 Sea Harrier jump-jets and Sea Eagle missiles. The $224m deal still needs Indian Cabinet approval. Page 4

MONTEDISON leading Italian chemicals group, has signed a five-year $250m co-operation agreement with the East German Government. The agreement covers technology transfer as well as trade in chemicals. Page 4

PHILIP MORRIS, U.S. tobacco and beverages group, is bidding for full control of its quoted Australian subsidiary, which owns Lindemans, one of the country's leading wine producers. Page 21

VIRGIN, the British pop music and record group which also operates a transatlantic airline, is raising £15m ($21m) to finance expansion. Page 5

ASTRA, leading Swedish pharmaceuticals group, says its pre-tax profits will increase this year by 20 to 25 per cent, with an improvement of between 12 and 13 per cent in sales. Page 19

French Socialists bury ideology and face the future

FRANCE'S ruling Socialist party quietly buried much of its ideological past over the weekend in an effort to project the more modernist image of a party in the main stream of the European social democratic movement, writes David Housego in Toulouse.

Drawing on the lessons of its four years in government and of its split with the French Communists, the party also for the first time began to define the conditions under which it might participate in a coalition government with groups from the centre or the right.

The changes were reflected in a policy motion adopted unanimously by the party at the end of its biannual congress yesterday. The motion commits the party to the concept of a market-oriented economy and re-enforcing French competitiveness, while providing a social welfare safety net, to protect the least well-off.

But the party avoided discussions of details, and its future economic programme remains vague.

M Michael Rocard, the Socialist leader who has pressed hardest for the changes in party doctrine, said afterwards that the party was no longer committed to two versions of socialism: "One in government, the other in opposition; one of management, the other of Utopia; one bound by the constraints of the day-do-day, the other condemned to the unreal."

He claimed the repeated applause at the congress for the Government's success in bringing down the inflation rate was "a clear sign of a cultural change in the party."

After months of internal squabbling, the Socialists celebrated their refound unity in a closing ceremony in which delegates cheered the party leaders who stood arm in arm on the rostrum clutching roses – symbol of the French Socialists. The congress is the last before the March parliamentary elections, and the party was visibly relieved to end it on a note of harmony, before the battle for votes begins.

Despite this display of camaraderie the congress brought into the open the sharply conflicting ambitions of M Rocard and M Laurent Fabius, the Prime Minister, who is to be nominated as the party's future presidential candidate. M Fabius in particular dealt M Rocard a knife-blow in his speech which took delegates' breath away.

It was none the less M Fabius who most successfully used the conference to re-establish his authority over the party – an authority that had been badly damaged by the Greenpeace affair. In a carefully prepared and delivered speech, he set the framework for the party's election campaign and made clear that it was he who would be leading it into battle.

He gave French backing to the idea of a European public works programme – aimed particularly at the transport sector – as a way of reinforcing international co-operation and growth. In coded language designed to cut the ground from the right's denationalisation programme, he made clear that the Socialists were also prepared for public sector enterprises to be transferred to private ownership.

By contrast M Rocard failed to translate fully into party terms the substantial gains he has made in the public opinion polls. He fluffed his major speech on Friday and only partially redeemed himself with a more successful performance on Sunday.

The shift in doctrine fro the generous, open-hearted socialism with which the party came to power were reflected in its abandonment of the idea of consumer-led reflation as carried out in 1982. Its commitment to a more market-oriented economy was qualified only by proposals to establish a "minimum social guarantee."

Another area in which the party has changed is in accepting that there might be circumstances in which it would participate in coalition after 1986. The situation envisaged is one in which the parliamentary right failed to get an absolute majority in the new assembly and the Socialists and the centre-right shared the common goal of excluding the extremist National Front.

The Socialists decided at the weekend that they would establish a "charter" of basic principles, which would set the basis of any coalition with other parties.

It remains to be seen, however, whether the charter will prevent renegade Socialists' serving with right-wing governments – as some in the party fear – or alternatively be the rallying point for a new consensus on the centre-left.

The tentative acceptance of a possible link with centre or centre-right movements was accompanied by toughly-worded declarations that the Socialists would in no circumstances support a government of the right.

Chinese securities broker opens for business

By David Dodwell in Shanghai

CHINA'S first stockbroker will begin operation in Shanghai next month, trading in the shares of just over 10 local companies that have sold equity to the Chinese public over the past year. China has no stock exchange and no body of law regulating its embryonic securities industry.

The Jinjiang Trust Company, headed by Mr Wu Ruiquan, will be the only body in Shanghai authorised to trade in company shares. It is a subsidiary of the Jinjiang Bank, which is locally incorporated, and answers to the People's Bank, China's central bank.

According to Mr Zhou Xinrong, head of the Yanzhong Copying Industry Company, which early this year raised yuan 5m ($1.65m) by selling 100,000 shares to the public at a par value of yuan 50, informal trading in his company's shares has already begun through a special department of the Jinjiang Bank.

From next month, responsibility for share trade will pass to the trust company. After strong growth over the past nine months, he expects trade in Yanzhong shares to open at around yuan 55.

Just under 20 Shanghai companies have raised funds over the past year by issuing shares. Some have restricted sales to employees, and to financial institutions such as the Shanghai Investment and Trust Corporation (Sitco). Just over 10 have offered shares to the general public. The largest offering was that by Yanzhong in January this year. A total of 18,000 people mopped up the yuan 5m in shares within eight hours of the offer being made.

Yanzhong, which began as a family collective in a congested rural suburb of central Shanghai, employs about 2,000 people in enterprises ranging from a photocopying centre to a publishing house. It has a joint venture with a Hong Kong company making fishing books.

On "going public," Mr Zhou was under no legal obligation to provide detailed information about Yanzhong. The company must hold a shareholders' meeting once a year – the first will be next February 16 – and publish a basic profit-and-loss account. The equivalent of a dividend – a combination of interest and bonus – will be paid once a year, and can be no lower than prevailing bank interest rates (currently about 7.2 per cent) and no higher than 15 per cent.

Continued on Page 18

Tokyo relaxes restrictions on trading in bond futures

BY ALEXANDER NICHOLL IN LONDON AND YOKO SHIBATA IN TOKYO

JAPAN is to relax tough curbs on futures trading following the launch of a financial futures market in Tokyo this month. A ban on residents trading on overseas futures exchanges will be lifted, and foreigners will have access to the new yen bond contract.

The changes could provide a significant boost to trading on U.S. and London exchanges as Japanese institutions hedge growing portfolios of overseas investments. They may also help to defuse pressure within the foreign futures industry.

The Chicago Board of Trade, which trades U.S. Treasury bond futures, has said it is considering the introduction of a yen bond contract.

Mr Robert Goldberg, its chairman, and Mr Brian Williamson, chairman of the London International Financial Futures Exchange (Liffe), are visiting Tokyo this week for talks with officials and financial institutions.

At present, only foreign branches and subsidiaries of Japanese banks and securities houses are allowed to trade on foreign futures exchanges, and must not act for Japanese residents or their own parent companies. Liffe has 23 Japanese bank branches and four securities houses as members.

The Ministry of Finance has argued that since Japan did not itself have a financial futures market its residents would not have sufficient experience to trade such instruments abroad.

But following the launch of yen bond futures on the Tokyo Stock Exchange on October 19, the ban on banks and securities houses will be lifted by the end of the year. Japanese resident investors and companies are expected to be allowed to use foreign futures markets by next summer.

The new Tokyo contract, based on 10-year Japanese government bonds, will be open to 12 foreign securities houses and three banks as well as to Japanese banks and the exchange's 83 member-houses, which are all Japanese.

Securities houses will be able to take orders from foreign investors. Japanese investing institutions are expected to use the new market to hedge their expanding government bond holdings against fluctuations in interest rates.

There is heavy bond trading in Japan.

Early poll lead for coalition in Belgium

By Paul Cheeseright in Brussels

BELGIUM'S centre-right coalition government was yesterday evening holding on to its majority as the first results of the general election became available.

Computer analysis after 10 per cent of the poll had been counted suggested that the ruling Christian Democrats and Liberals on both sides of Belgium's Flemish-French linguistic frontier had held off a challenge from the Socialists. They will have 113 seats out of 212 in the Chamber of Deputies, the analysis suggest s. That would represent a gain of two seats.

Although in Flanders, the northern region of the country, the Socialist vote moved higher, the gains appeared to be at the expense not of the ruling Christian Democrats but of regional and minority parties. The Christian Democrats – the party of Mr Wilfried Martens, the Prime Minister – were polling surprisingly strongly.

At the same time, however the Flemish Liberals – the acknowledged weak link in the coalition, were losing ground.

In terms of the coalition's ability to hold its majority, such weakness could be offset by the expected strong showing of the Liberals in Brussels, where they are likely to emerge as the strongest party.

The Socialists will, on the basis of the early results, remain the strongest party in Wallonia, the French-speaking area of Belgium.

But no results were complete for

Continued on Page 18

Yugoslavs turn down U.S. plea over Palestinian

BY REGINALD DALE IN WASHINGTON AND JAMES BUXTON IN ROME

YUGOSLAVIA last night rejected a U.S. request to detain Mohammed Abu Abbas, said by Washington to be the "mastermind" of last week's hijacking of the Italian cruise ship Achille Lauro, who was released from custody in Italy on Saturday.

The Yugoslav rejection came in the wake of a very sharp U.S. protest in Rome at the Italian decision to let the Palestinian go which contrasted with U.S. moves to soothe Egyptian outrage at the forcing down of its aircraft carrying the four hijackers by U.S. fighters on Thursday night.

The Egyptian Boeing 737 returned to Cairo yesterday from Rome, clearing the way for the return to Italy of the Achille Lauro, which had been held by the Egyptian authorities.

While the U.S. yesterday continued to express its public outrage at the Italian decision to let go the leader of the Palestine Liberation Front, a number of Administration officials said privately that they had not been too surprised at Italy's action.

Abu Abbas was aboard the Egyptian airliner forced down in Sicily and then flew to Belgrade after his release in Rome on Saturday.

Washington pledged to continue to "hunt down" Abu Abbas and any others responsible for the hijacking, in which an elderly American was murdered, despite his success in evading arrest in Italy and Yugoslavia. The U.S. had asked Yugoslavia to hold the Palestinian leader pending a formal request for his extradition.

Italy's action, took some of the shine from the success of the U.S.'s dramatic interception of the hijackers' airliner. It was particularly galling in that U.S. special forces were reported to have reluctantly allowed Italian carabinieri to take control of the Palestinians at the Sigonella base in Sicily, following a tense confrontation between the two countries' forces.

An "intelligence source" was quoted in the Washington Post as saying that the confrontation over the custody of the Palestinians nearly led to gunfire between Americans and Italians before the Americans ceded control of the prisoners.

Mr Maxwell Rabb, the U.S. Ambassador to Italy, underlined the U.S. Government's displeasure yesterday during a two-hour meeting with Sig Giulio Andreotti, the Italian Foreign Minister.

After the meeting, Mr Rabb said that the decision of the Italian Government was "incomprehensible to the Government and the people of the U.S."

He said, however, that he was not "angry with Italy," and added that he hoped relations between the two countries would continue "on the

Continued on Page 18

UK ministers meet to settle rift over spending priorities

BY MAX WILKINSON AND PETER RIDDELL IN LONDON

A SPECIAL committee of senior British ministers – known as the "Star Chamber" – will this week begin an intense series of meetings in an attempt to resolve the fierce battle between the UK Treasury and the Government's spending departments.

The Star Chamber will be attempting to cut the public spending bids, which are about £3bn ($4.2bn) above the Treasury's target.

Senior ministers believe that only part of the gap is likely to be eliminated by the committee, headed by Lord Whitelaw. Difficult issues, such as energy prices, social security and housing are expected to require the personal intervention of Mrs Margaret Thatcher, the Prime Minister, on her return in a fortnight's time from the Commonwealth heads of government meeting in the Bahamas.

The Star Chamber will consider demands by the Treasury for an extra £300m to £400m contribution from the state-owned gas and electricity corporations to set against the bids for extra spending by government departments – which amount on some calculations to more than £4bn.

A big rise in gas prices is being considered by ministers as a way of ensuring a successful flotation of British Gas, which is due to be privatised next autumn. Electricity prices would probably also rise for competitive reasons.

The gap between the Treasury and the spending departments is much larger than usual, but reflects the fact that the Treasury's Chief Secretary, Mr John MacGregor, was appointed only last month and has not yet had time to reach any formal agreements with spending ministers.

After taking account of informal deals, the Treasury is probably about £3bn adrift of its target of a £139bn spending total for 1986-87. It is preparing to find £1bn of that by reducing its reserve from a planned £6bn to £5bn.

A further £1bn or so might come from increasing asset sales above the planned £2bn. However, the Treasury would rather make room for tax cuts by keeping spending totals down to target.

In view of those heavy pressures on spending, the Treasury is under a strong temptation to squeeze more cash out of its two profitable nationalised industries – gas and electricity.

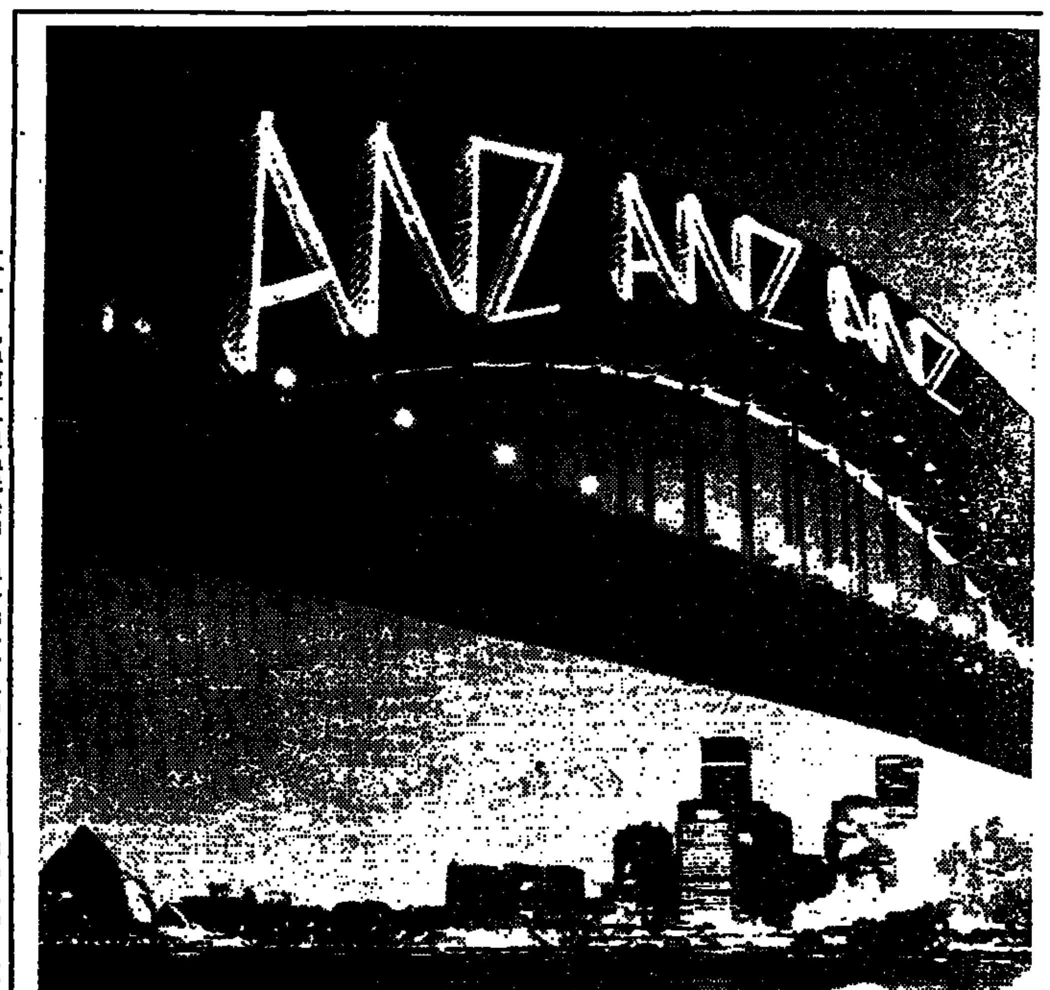
The electricity industry, which was scheduled to contribute more than £1bn this year, has been asked to find an additional £250m or so compared with next year's baseline. That would probably bring its contribution (negative external financing limit) to approaching £1.5bn.

The Treasury claims, as usual, that the extra can be found through increased efficiency and re-phasing of the investment programme (including coal stocks). But the industry believes extra price rises would be necessary. It has pencilled in a rise of about 5 per cent for next year. The Treasury's demands are the equivalent of about a further 3 percentage points rise.

Much of the argument will turn on the phasing of coal stock replenishment at power stations. There is still a residual feeling in the Treasury that the public should pay for some of that through a concealed so-called "Scargill surcharge" – to compensate for the losses in the miners' strike, led by Mr Arthur Scargill.

In the case of gas, the more important calculation is that a price rise would increase future profits and so raise the asset value of the corporation. That might have a significant gearing effect for the Treasury's finances in 1986-87.

Price rises in advance of privatisation might also ease the task of the regulatory body that is due to be set up for gas.



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CONTENTS

Greeks seek big cut in current account deficit

BY ANDRIANA IERODIACONOU IN ATHENS

THE GREEK socialist Government, which on Friday devalued the drachma by 15 per cent and introduced a bank deposit on a range of imports has said it hopes to reduce the country's current account deficit to $1.6bn by the end of 1987, with an intermediate goal of $2bn by the end of next year.

Mr Costas Simitis, the Economy Minister, admitted following the devaluation that the current account deficit is expected to reach $2.8bn this year. The Government's target was $1.7bn. The deteriorating balance of payments picture reflects a continued decline in vital invisible earnings from shipping and immigrant workers' remittances, along with an increase in imports and a decrease in exports.

The minister did not rule out a further slide in the drachma's value, depending on the competitiveness of the Greek economy.

The Government also hopes to trim the public sector deficit (expected to top 18 per cent of GNP this year) by four percentage points by the end of 1986. Friday's measures included a watering down of the system of partial wage indexation. The Government has also said it intends to limit public spending drastically in the 1986 budget.

Friday's austerity package, of which the devaluation was one part, was not unexpected. As early as the end of August, Mr Andrea Papandreou, the Prime Minister, had warned that stabilisation measures were needed to stem rising foreign borrowings caused by runaway current account deficits, coupled with declining private capital inflows.

According to the Bank of Greece, the foreign debt virtually trebled to $12.358bn between 1978 and the end of 1984. Independent estimates placed Greece's foreign debt at more than $18bn at the end of last year.

According to Mr Simitis, Greece has held consultations with the European Commission about the new import deposit requirement, whose purpose is to restrict import activity.

Turnout in Polish vote disputed

By Christopher Bobinski in Warsaw

POLES VOTED yesterday in the first parliamentary elections since martial law was imposed and Solidarity banned four years ago.

The Government and Mr Lech Walesa, the Solidarity leader, made conflicting claims about the turnout. Solidarity which had urged people to boycott the elections, says it will verify independently the results announced by the Government.

The elections provide Poles with the minimal choice of 820 officially approved candidates for 410 seats, with a "national list" of 50 leading policiticians to be approved by the authorities.

Mr Jerzy Urban, the government spokesman, claimed early in the voting yesterday that attendance was slightly higher than in local government elections a year ago when the government said 75 per cent voted.

Mr Walesa claimed that "over 50 per cent would boycott the elections" in Gdansk.

In Warsaw, where skies were overcast and the wind cold, police patrols kept close watch on polling stations to deter Solidarity supporters from distributing leaflets.

PERMANENT REPRESENTATIVE TO EEC RETIRES

Britain's budget-battler quits field

BY QUENTIN PEEL IN BRUSSELS

BRITAIN'S formidable permanent representative to the EEC in Brussels, Sir Michael Butler, must have appreciated the timely farewell gesture made by the European Commission last week.

On the eve of his retirement, the Commission published a "rectifying letter" to the 1986 Community budget, showing that the UK would get back an extra Ecu 264m (£150m) in reduced budget contributions—thanks to the deal agreed at last year's Fontainebleau summit.

There is very little any other member state can do about the matter, for the Commission is simply applying the letter of the Fontainebleau agreement for which Sir Michael, as much as any other person, was responsible.

As the permanent representative since 1979, when Mrs Thatcher made her famous demand in Dublin for a budget refund, he had to lead the battle through the intricacies of EEC budget theory and practice, and against the entrenched positions of both net beneficiaries from the budget, and true believers in maintaining the traditions of Europe.

It was not a battle which won him many friends, although he did earn considerable respect.

He left Brussels at the weekend convinced that the British budget deal would stand the test of time—for, by 1987, when it has to be renegotiated, France and West Germany will also be substantial net contributors to EEC spending, with every interest in keeping that situation under control.

As an intellectual master of detail, and with a capacity for a clear and logical analysis of the most complex technical issues, Sir Michael was in many ways ideally suited to the grindstone of Brussels diplomacy.

His very dry and decidedly Wykehamist sense of humour, backing up a distinctly British view of the Community as above all a common market for the exchange of goods and services, was on occasion lost on his Continental colleagues.

"You cannot think of a reform which will not leave the European Parliament frustrated," he remarked recently, about attempts to give MEPs more authority. "That is their role."

The thoughts of Sir Michael on all the years of British membership of the EEC are likely now to receive a wider audience, for he is writing a book in which he promises not to be dull, but to reveal some of the cut and thrust behind the Brussels barricades.

His successor in Brussels, Mr David Hannay, is a fellow product of Winchester and Oxford, whose expertise in the intricacies of EEC affairs is probably second only to Sir Michael's. But he, at least, may not have quite such a bloody budget battle to fight again.

Eureka projects need FFr 50bn in funding

BY PETER MARSH IN LONDON AND DAVID MARSH IN PARIS

A TOTAL of about FFr 50bn (£4.4bn), half of it from government sources, will be needed to back projects in Eureka, the proposed pan-European research programme, according to M Yves Sillard, director of Eureka programmes at the French Research and Technology Ministry.

M Sillard says the cash should be spent on individual projects, each of which could involve spending of between FFr 50m and FFr 2bn, over the next five or six years.

The funding of Eureka, which France proposed earlier this year to knit together European efforts in areas of strategic research such as transport systems and electronics, is the subject of a conference today in London attended by 18 European nations.

While France has said it will make available FFr 1bn for Eureka projects, the British Government, which is hosting today's meeting, is reluctant to discuss the details of financing the programme.

Although welcoming the scheme's strategic goals, Britain says it would not provide a new source of public funds to aid Eureka. It will instead rely on private organisations, such as City institutions, to provide finance for ventures that involve British companies.

Today's meeting is intended to explore the ground for participation in funding by private groups. Each country is expected to send two delegates, one from industry and the other from the banking world.

The 18 countries due to attend the meeting, which is a prelude to a ministerial conference on Eureka in Hanover early next month, are: Britain, France, West Germany, Italy, Luxembourg, Ireland, Belgium, the Netherlands, Greece, Denmark, Portugal, Spain, Finland, Norway, Sweden, Austria Switzerland and Turkey.

The exact form Eureka will take is still somewhat hazy. Key issues still to be resolved include:

- Availability of state finance. British companies such as Thorn EMI and GEC and others elsewhere in Europe are worried that they may be put at a disadvantage by entering research consortia in which partners from other countries receive state funds while they have to ask the private sector for money.
- Nature of projects. Some countries appear to favour product-oriented research schemes, aimed at involving groups from different countries in the development of, for instance, new supercomputers or medical lasers.

An alternative view, espoused by the British Government, is that Eureka should support only "infrastructure" projects—for example high-speed trains or radio-navigation systems for road vehicles—that are relevant to the whole of Europe and which involve a broad mixture of technologies with commercial relevance.

- The role for financial institutions. Most observers think such organisations would be most reluctant to back projects at an early stage of research. They may, however, be prepared to support development activities which seem likely to provide products within, say, a couple of years.

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Inflation rate below 4% forecast for EEC

By Our Brussels Correspondent

AVERAGE inflation throughout the EEC should drop to under 4 per cent next year, for the first time since the late 1960s, according to the latest economic forecast by the European Commission.

Success in tackling inflation has been registered in all 10 member states, with a continuing reduction in their differentials underpinning the relative stability of currency exchange rates within the European monetary system.

Economic growth within the Community is also expected to accelerate slightly to 2.5 per cent next year, compared with 2.3 per cent in 1985—an improvement entirely attributable to the expansion of internal demand.

In spite of boasting a large external trade surplus, forecast at $24bn in 1986, exports are not expected to contribute to faster growth, in line with the general sluggishness of world trade.

The latest inflation forecast by the Commission's economic staff is for 5.2 per cent in 1985, falling to 3.9 per cent next year. That represents a further reduction in the 4.4 per cent in 1986 they forecast last June, thanks to the expected further weakening of the dollar leading to lower import prices.

The forecast assumes a 12 per cent depreciation of the dollar against the basket of currencies in the European currency unit (Ecu) between 1985 and 1986.

The only member state with double-digit inflation is Greece, expected to average 18 per cent this year, and 16 per cent in 1986. Italy remains the next highest, with a forecast decline from 8.6 per cent to 6.5 per cent next year.

Britain, with sterling still outside the exchange rate mechanism of the EMS, is expected to benefit rather less from the decline of the dollar, with a 1986 inflation rate of 4.3 per cent, 0.4 of a percentage point above the expected Community average.

The expansion of employment is expected to accelerate just enough to halt the increase in the rate of unemployment, 11.2 per cent this year, but not enough to reduce it significantly.

There should, none-the-less, be an increase in real disposable household incomes, the Commission suggests, rising by 2.3 per cent. Wages per head are expected to grow by 5.4 per cent, against the forecast 3.9 per cent inflation rate.

Investment should rise by 3.7 per cent next year, with investment in equipment rising by 5.6 per cent. However, the construction industry, which actually contracted by 4.1 per cent in the current year because of the bad weather, is only expected to expand by 1.6 per cent next year.

The highest 1986 unemployment rate in the Community is expected to remain the Irish Republic, with 17.4 per cent out of work, followed by Belgium with 14.5 per cent, and Italy and the Netherlands on 13 per cent. Britain will remain above the EEC average with 11.7 per cent compared with 10.9 per cent in France and 8 per cent in West Germany.

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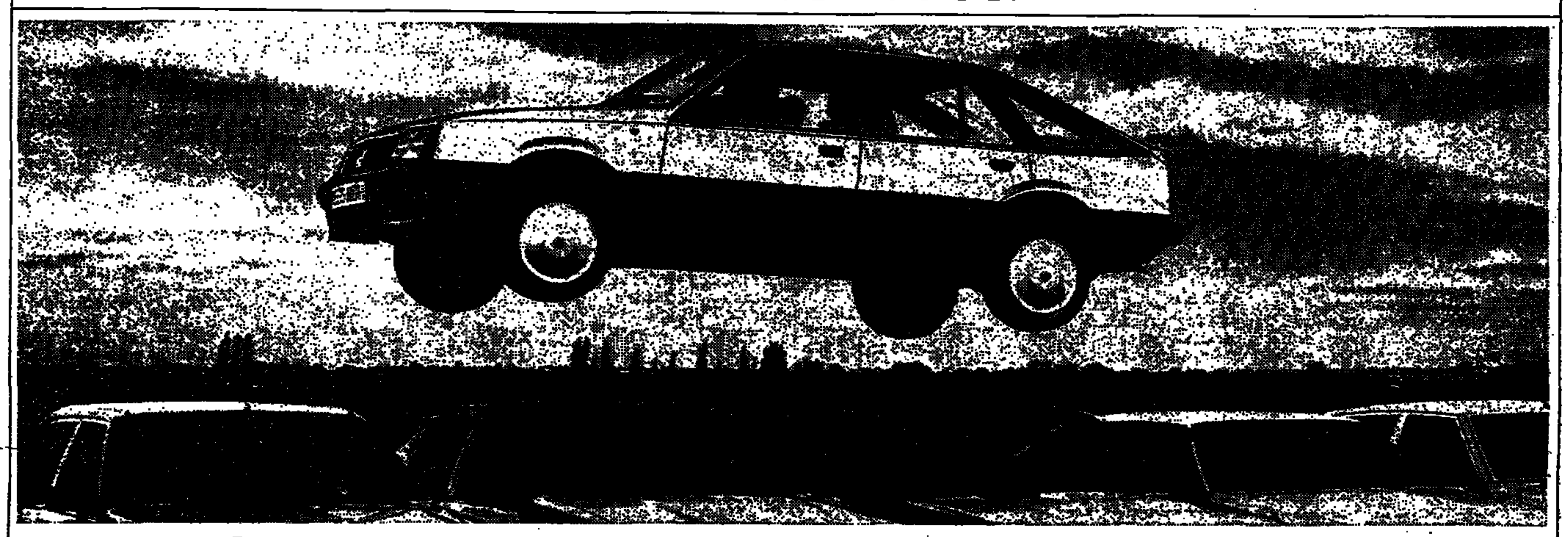

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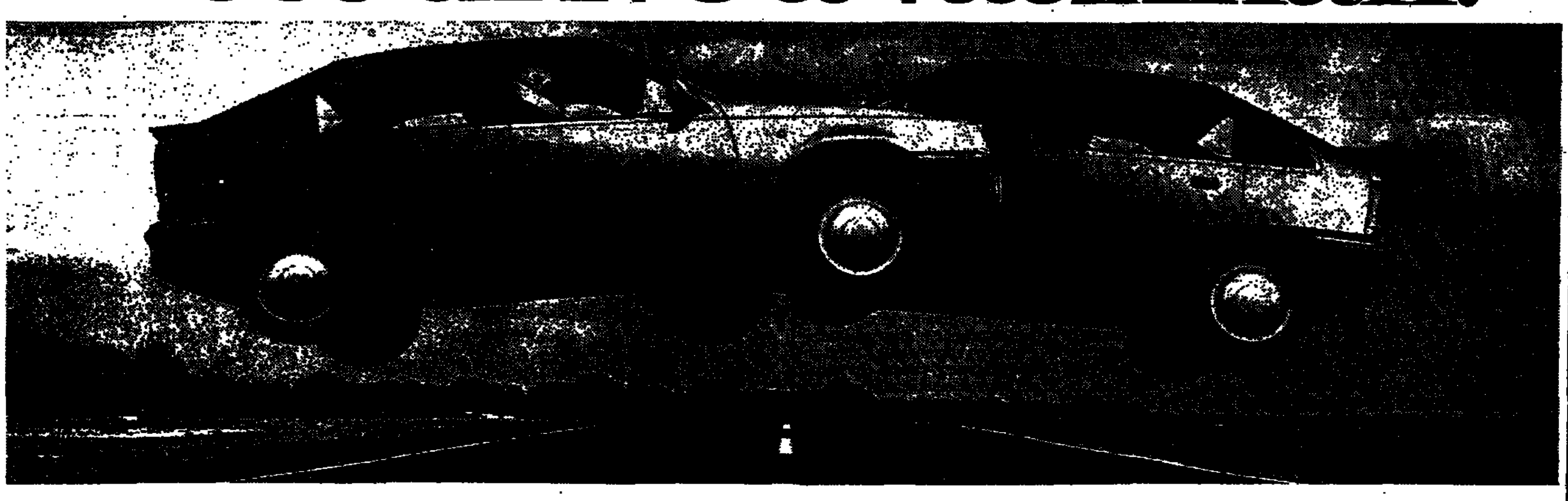

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Poorest nations fail to win promises of increased aid

BY WILLIAM DULFORCE IN GENEVA

THE WORLD'S poorest countries have failed to win firm pledges that the leading industrialised nations will step up annual aid flows to 0.15 per cent of their gross national products.

A two-week conference called to review progress in a United Nations' programme for the 36 least developed countries (LDCs) ended Saturday with an appeal to donor countries to "make every effort necessary" to meet the 0.15 per cent target or to double aid allocations compared with the 1976-80 period.

Both the U.S. and Britain dissociated themselves from the appeal. The U.S. said the targets set up false expectations and led to bad development policy management for both donors and recipients.

The Substantial New Programme of Action for the "Fourth World" countries adopted in Paris in 1981 aimed at doubling their national incomes during this decade. It assumed an annual growth of 7.2 per cent in their gross domestic product.

The growth rate recorded in 1982 and 1983 was only 2 per cent a year, which against an annual population increase of 2.6 per cent, demonstrates an actual decline in GDP per capita. Current per capita income of the 300m people concerned is estimated to be only 60 U.S. cents a day.

The LDCs' foreign debt had reached $35bn by the end of 1983. The International Monetary Fund, noting that the debt servicing ratio had soared to 36 per cent, reported to the conference that there was little prospect of them returning to "balance of payments viability" and satisfactory rates of economic growth in the foreseeable future.

Some $2.9bn of the LDCs' development aid debt have been cancelled and the conference "invited" other donor countries to follow suit.

Six countries—Belgium, Denmark, France, the Netherlands, Norway and Sweden—have fulfilled the 0.15 per cent aid target but the average for the industrialised countries has been stagnant at 0.08 per cent of GNP from 1981 to 1984.

FINANCIAL TIMES

Devon & Cornwall Survey

29 NOVEMBER 1985

For further details please contact:

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FINANCIAL TIMES

Europe's Business Newspaper

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: C.E.P. Smith, Frankfurt/Main. © The Financial Times Ltd. 1985.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

OVERSEAS NEWS

U.S. to review interpretation of ABM treaty

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE REAGAN Administration is to take another look at its latest claim that the development of new defensive space weapons is fully authorised by the 1972 anti-ballistic missile (ABM) treaty following a hostile reaction from U.S. allies, members of Congress and arms control experts, U.S. officials said at the weekend.

President Ronald Reagan persisted with the administration's new interpretation in his weekly radio broadcast on Saturday, stating that both research and testing under his Star Wars programme were "within the terms" of the treaty. Several administration officials, however, appear to be concerned at the outcry that this line has provoked just five weeks before Mr Reagan's summit meeting with Mr Mikhail Gorbachev, the Soviet leader, in Geneva.

The new interpretation was heralded just over a week ago by Mr Robert McFarlane, Mr Reagan's national security adviser, who said in a TV interview that research, testing and deployment of defensive weapons involving new physical concepts, were approved by the treaty and that only deployment was foreclosed.

The Administration's position had previously been that the Star Wars programme was justified under the treaty because, for the time being, it involved only research. It was acknowledged that the programme might come up against treaty restrictions in future years, as testing and development proceeded. Some officials had even suggested that the treaty might have to be amended.

The treaty specifically prohibits the "testing, development and deployment" of space-based, sea-based, air-based or mobile land-based ABMs, although research is permitted.

Mr McFarlane's view, however, appears to be that there is a loophole in the form of "an agreed statement" attached to the treaty which permits the research and testing of systems based on "new principles." That, he says, means systems other than the ground-to-air missiles which were the treaty's main concern at the time.

qualify Mr Grant as a candidate

U.S. officials who support this line also argue that a close review of the actual negotiating record, carried out in recent weeks in Washington, supports their interpretation. The record shows, too, that the Soviet negotiators did not intend to accept limits on testing and development of "exotic" new systems, such as those foreseen under the Star Wars programme, they say.

This interpretation, however, has been strongly contested by Mr Gerard Smith, who was the treaty's chief U.S. negotiator, and has led to considerable anxiety in the Nato alliance. Mr Paul Nitze, Mr Reagan's senior arms control adviser, was reportedly questioned sharply on the issue during a trip to Europe last week to brief the allies on preparations for the Geneva summit.

Mr George Shultz, the U.S. State Secretary, is expected to face similar questions at Tuesday's special pre-summit of the Nato Council in Brussels.

Peter Bruce adds from Bonn: Herr Hans Dietrich Genscher, the West German Foreign Minister, reacted sharply at the weekend to the latest interpretation of the ABM treaty.

Bonn is on the verge of formally joining the research programme into Star Wars. Herr Genscher has long been critical of the programme. However, he has managed to get Chancellor Helmut Kohl to agree that West Germany should not become involved in anything which would contravene the ABM accord.

Bonn's interpretation of the treaty is that it does not more than allow research into anti-ballistic missile systems like the one envisaged in the Star Wars programme, and Herr Genscher warned on Saturday that: "I do not think it would be good if one were to alter this interpretation," he said, "a wall of fire" needed to be drawn between research and development.

China set to press trade issues during Bush visit

BY OUR PEKING CORRESPONDENT

THE U.S. Vice President, Mr George Bush, arrived in Peking yesterday for a goodwill visit, giving Chinese officials an opportunity to twist his arm over proposed protectionist legislation in the U.S. and to continue their diplomatic strategies of courting both superpowers, while embracing neither.

Mr Bush is an old China hand, having headed the U.S. liaison office in Peking in the mid-1970s before the U.S. and China established formal diplomatic relations.

The Vice President's itinerary includes a call on his former Chinese language teacher, here. He will also meet with Li Xiannian, the Chinese President, who visited the U.S. in July, and Premier Zhao Ziyang.

Trade and Taiwan are the issues most likely to cause disagreement during the visit. Diplomats here have observed that Taiwan has been elevated to the status of "obstacle" by Chinese officials in assessing the development of Sino-U.S. relations.

Chinese interest in the reunification of Taiwan has intensified since the settling of the Hong Kong question. The more the Chinese press the reunification issue, the more obvious the differences in the Chinese and U.S. stances will become.

The Jenkins Bill will be on top of the list of trade concerns to be raised by the Chinese, who would be hard hit by the Bill's aim to curb the indirect export of textiles. The Chinese estimate that the textile restrictions included in the Bill could cost the country $500m.

A fundamental problem in the trading relationship is that the two countries cannot agree on who has the deficit, and both cite a deficit as a justification for seeking trading favours.

The U.S. is looking to expand its commercial presence in China. Before his arrival Mr Bush said the visit would be an opportunity to press for US participation in the Chinese modernisation drive.

Howe to see PLO delegates as Israeli anger mounts

BY OUR MIDDLE EAST STAFF

SIR GEOFFREY HOWE, the British Foreign Secretary, is to meet two members of the Palestine Liberation Organisation's Executive Committee today in the face of intensified Israeli anger following the hijack by terrorists last week of the Achille Lauro cruise liner.

Yesterday the Foreign Office confirmed that the talks would go ahead as planned with the Rev Elia Khouri, exiled Anglican Suffragan Bishop of Jerusalem, and Mr Mohammed Milhelm, expelled mayor of Halhul on the Israeli-occupied West Bank.

They are members of a joint Jordanian-Palestinian delegation invited by Mrs Thatcher after talks with King Hussein in Amman last month. It also includes Mr Abdul-Wahhab Majali, one of Jordan's three Deputy Premiers, and Mr Tahir al aMsri, the Foreign Minister, who is of Palestinian origin.

Coming so soon after the Achille Lauro affair the talks are bound to cause Mrs Thatcher some embarrassment given the strength of support for Israel on both sides of the House of Commons.

Yesterday Sir Geoffrey defended the decision to hold the meeting saying: "We think that if we are to have a chance of bringing to an end the continuous conflict between Israel and the Palestinian people—on the basis that Israel's right to exist and to security is accepted without question, and on the basis that the Palestinians' right to self-determination is accepted—then we have to encourage those men who favour negotiation and moderation and who repudiate violence."

At the time the invitation was issued Mrs Thatcher justified it with the assertion that both had publicly condemned the use of violence and accepted UN resolutions affirming Israel's right to exist.

In practice, neither is believed to have repudiated what the Palestinian movement calls the "armed struggle."

Yesterday on the eve of the talks the Israeli Government made renewed efforts to discredit Bishop Khouri and Mr Milhelm.

In Jerusalem information officials showed the foreign press archive film in which Bishop Khouri admitted to having passed on explosives to resistance elements which had received in a consignment of medicines. Before deportation he was accused of involvement in a bomb blast at a Jerusalem supermarket in which two people were killed and eight wounded.

Mr Milhelm was expelled after a 1980 terrorist attack in Hebron in which six Jewish students were killed, but the action taken against him seemed to observers to be arbitrary.

Yesterday Mr Michael Latham, chairman of the Conservative Friends of Israel (of which Mrs Thatcher is a member), described the meeting as "useless" because it would not advance the peace process and "dangerous because it confers spurious respectability on an unrepentant organisation which embraces some of the world's most violent killers."

Mr Feisal Aweidi, PLO representative in London, said that the two men, like the organisation, had renounced international terrorism, but as members of the Executive Committee could not abandon the principle that "we will fight to liberate our land unless a peaceful settlement is in the offing."

Meanwhile, 51 U.S. Congressmen have urged Mrs Thatcher to drop the recently concluded deal worth about £4bn under which the UK is to supply Saudi Arabia with 72 advanced Tornado ground attack and interceptor aircraft. In a letter to her, they said that the sale would escalate the Middle East arms race

ANC hails opposition group's visit

By Patti Waldmeir in Lusaka

THE visit by the leader of South Africa's white parliamentary opposition and party colleagues to Lusaka for unprecedented talks with the African National Congress was hailed yesterday by the ANC secretary general as a step to "broaden the anti-apartheid base" in South Africa. However, it was clear that the two sides had found little common ground on the central issue of how apartheid should be dismantled.

Both Dr Frederick van Zyl Slabbert, the leader of South Africa's Progressive Federal Party, and Mr Alfred Nzo, ANC secretary general, stressed the "extreme usefulness" of the talks when they addressed a joint Press conference yesterday following talks on Saturday which were said to have been cordial. The tone was in sharp contrast to that adopted by the ANC in the past when it has bitterly attacked Dr van Zyl Slabbert as too moderate.

Dr van Zyl Slabbert, who headed a four man PFP delegation, is understood to have solicited the views of the ANC on its willingness to participate in a broad-based "national convention" to work out a constitution for a "united nonradical and democratic South Africa."

The PFP and Chief Gatsha Buthelezi, whose Inkathat movement is accused by the ANC of collaborating with the apartheid authorities, have recently formed a "convention alliance" to promote the idea of a negotiated settlement to the South African crisis through a national convention.

The ANC, the main exiled nationalist movement fighting white rule in South Africa, told the PFP leader it had no intention of participating in the convention now. Mr Nzo said, however, he would not rule out negotiations "for all time" and is understood the ANC executive will discuss the matter further.

Mr Nzo made it clear that Chief Buthelezi's participation in the PFP-backed convention alliance is a major barrier to ANC participation.

Dr van Zyl Slabbert, offered to brief President P. W. Botha on the outcome of the talks.

Asked what his meeting with the ANC could be expected to achieve, he said it was his party's role to try to bring about a "change of attitude" among whites and implied that a better understanding of the objectives of the ANC would help.

The two sides said they had differed on the issue of the use of violence and the use of economic sanctions to bring about fundamental change in South Africa. They left the door open for possible future talks.

INDIAN P.M. TO MEET THATCHER BEFORE COMMONWEALTH CONFERENCE

Gandhi seeks tougher UK line on S. Africa

BY ROBERT MAUTHNER IN LONDON AND JOHN ELLIOTT IN NEW DELHI

MR RAJIV GANDHI, the Indian Prime Minister, who begins a two-day official visit to Britain today, will try to persuade Mrs Margaret Thatcher, the Prime Minister, to take a tougher stand on sanctions against South Africa at the Commonwealth Heads of Government meeting opening in Nassau on Wednesday.

He will also urge Mrs Thatcher to take a stronger line against Sikh extremists living in Britain who are calling for the creation of an independent Sikh state called Khalistan in the northern Indian state of Punjab.

India, together with most of the black African states, Australia and Canada, believes that the Commonwealth should adopt a series of economic sanctions against South Africa, to force it to abolish the system of apartheid. Before coming to London, Mr Gandhi described Britain as "the odd one out" on South Africa, among the Commonwealth members.

Mr Gandhi: Britain 'the odd one out'

Though Britain has adopted some sanctions against South Africa as part of a joint EEC policy including embargoes on arms, oil and nuclear equipment exports which it has been applying for a long time, India and some other Commonwealth countries favour more far-reaching economic sanctions.

President Julius Nyerere, of Tanzania has proposed that these should include a ban by Commonwealth countries of South African agricultural, exports and the cutting of civil air links with Pretoria.

Mrs Thatcher, however, is expected to resist the call for economic sanctions in her talks with Mr Ghandi at Downing Street today and tomorrow, on the grounds that they would harm the black community more than the white, would damage neighbouring black economies, and would stiffen Pretoria's resistance to change.

On the question of Sikhs in Britain, Mr Gandhi is specially concerned that the activities of these extremists, who have little support in India, should not upset the recent agreement he made with Sikh leaders on their claims for the Punjab.

Other subjects to be discussed will include threats posed by international terrorism, India's concern that Pakistan is developing a nuclear bomb with the help of the U.S. and India's concern about the international monetary system

India will also urge the UK to do more to correct a trade imblance between the two countries. Last year Britain's exports to India totalled $781m and its imports $571m, leaving a £210m gap which is widening this year because UK exports have risen 21 per cent in the first eight months.

Mr Gandhi may also mention his Government's concern about a six- to nine-month delay in the construction of a power station at Rihand in northern India by Northern Engineering Industries of the UK under a £230m turnkey contract.

The UK gives India £110m in aid grants a year, more than it provides for any other country and more than India receives from any other country. It also has more industrial joint ventures — some 1,800 — but in the past few years the U.S. and West Germany have introduced more new ventures.

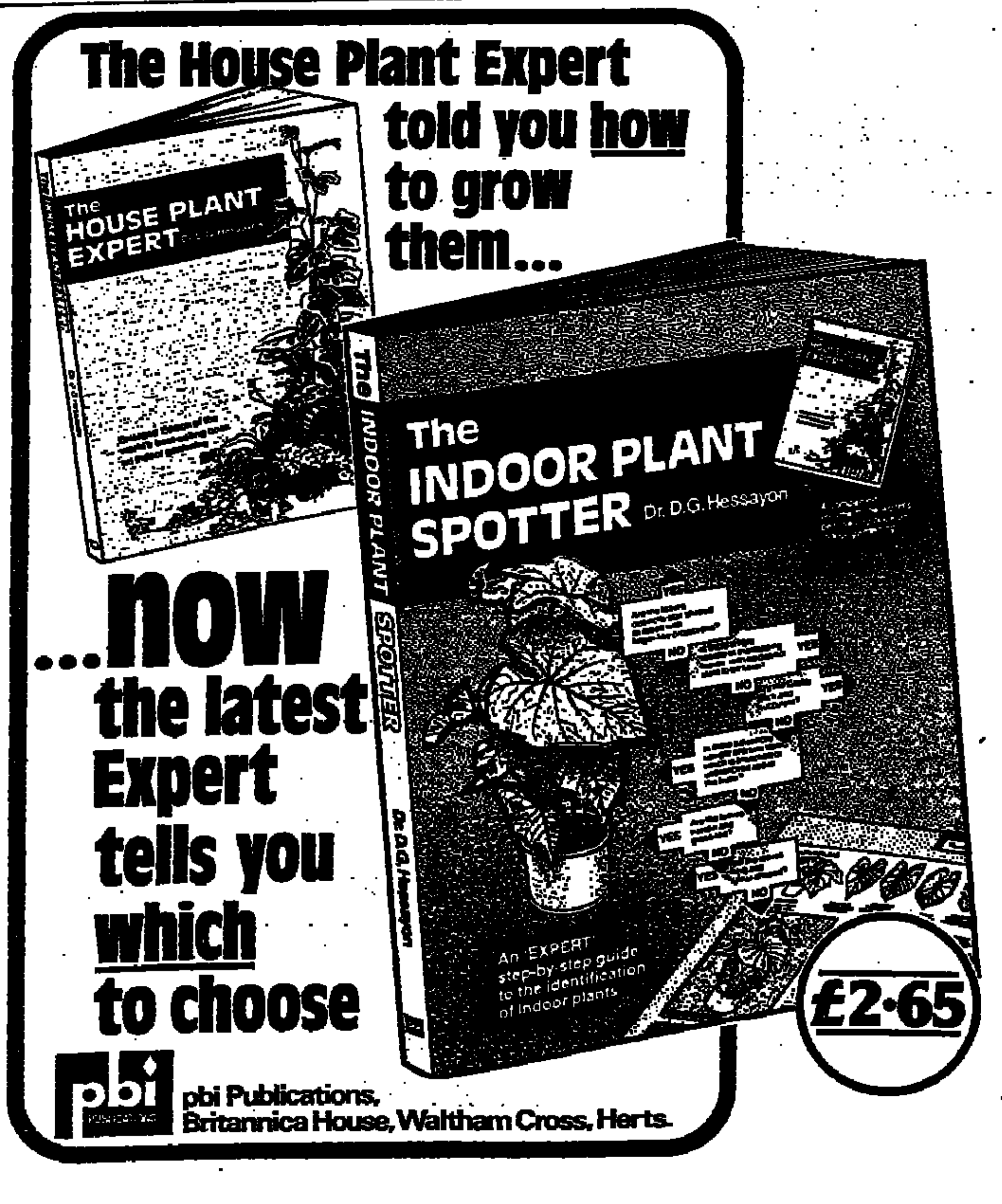
Mitterrand on tour of S. America

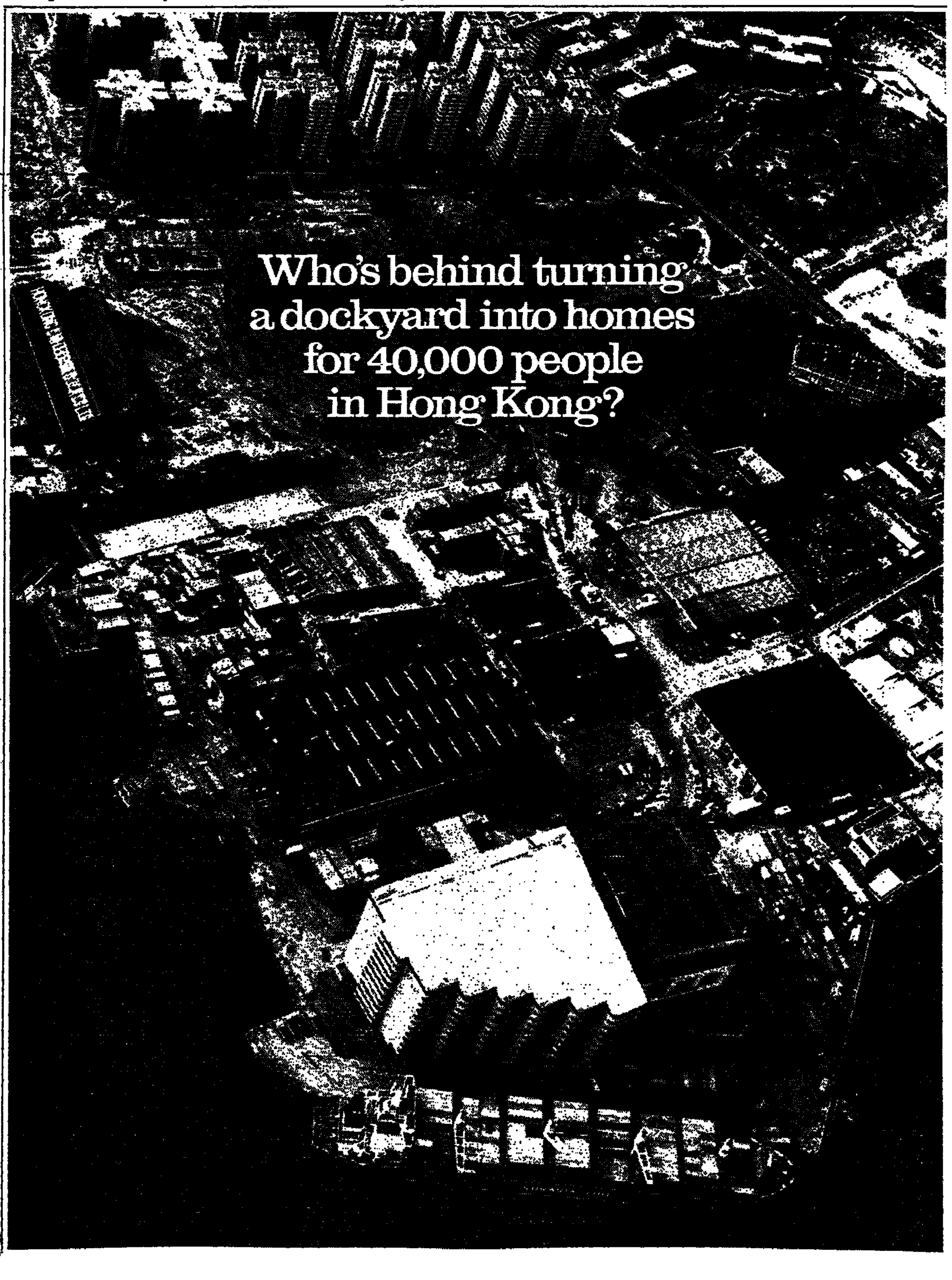
President Francois Mitterrand of France, who starts a tour of South America today, will renew his call for change in the world monetary system and condemn demands made by the International Monetary Fund (IMF) on developing nations, French officials said, Reuter reports from Brasilia.

M Mitterrand arrives in Brazil today, where he will spend four days before flying on to Colombia.

France considers that Latin American nations, saddled with a $360bn foreign debt, should not be forced to repay their debts at the cost of poverty and stalled economic development, French diplomats said in Brasilia.

"M Mitterrand will insist on the identity of views between Brazil and France on the external debt issue but will resist (President Jose) Sarney's attempts to lead him into an anti-IMF crusade," one diplomat said.





WORLD TRADE NEWS

U.S. semiconductor shipments rise 11.6% in September

BY LOUISE KEHOE IN SAN FRANCISCO

A RAY of hope has emerged for beleaguered U.S. semiconductor manufacturers with the release at the weekend of shipment data for September. The industry's widely watched health indicator, the book-to-bill ratio, moved slightly upwards for the month indicating an improvement in business conditions.

The U.S. Semiconductor Industry Association said that the book-to-bill ratio, the measure of the value of orders booked against parts shipped, rose to 0.76 in September from 0.74 in August.

September shipments rose to $687.3m (£476.6m), an increase of 11.6 per cent on the August level but down 6 per cent from that of June, the last five-week month, and down 40 per cent on that of a year ago.

The SIA anticipates a further improvement in sales.

"We are continuing to see early signs that a semiconductor recovery has begun," said Mr Thomas Hinkelman, President of the SIA. He forecast a 2-3 per cent increase in shipments during the fourth quarter.

The SIA report provided a fillip for semiconductor stocks. Following Intel's recent report of a $23m operating loss for the third quarter, semiconductor stocks plunged, but the SIA's optimism brought them back up.

Wall Street's views of the industry were further improved by two statements issued in Washington.

The Commerce Department, which is investigating allegations that Japanese manufacturers have dumped memory chips on to the U.S. market, said it will protect the industry from Japanese competition and place the semiconductor industry's complaint in "at the top of our agenda."

Separately, Senator Pete Wilson of California rebuked Mr Tsuneo Tanaka, the president of Hitachi America, who failed to appear before a joint economic committee last week to answer questions regarding his company's pricing strategy.

The publication of an internal memo issued by Hitachi to its U.S. salesmen—instructing them to undercut U.S. vendors' prices by 10 per cent and "if they requote go 10 per cent again . . . don't quit until you win!"—has raised serious questions about Japanese predatory pricing.

Hitachi has attributed the memo to "over-enthusiasm" on the part of U.S. employees. Mr Tanaka declined to attend the committee hearing because "the subject coincides with that of several major legal proceedings."

Senator Wilson warned the Japanese company: "Our business with Hitachi has not been concluded. The only way we can be credible to the Japanese is to retaliate. I do not think they take rhetoric very seriously."

BAe, Delhi complete jump jet negotiations

By John Elliott in New Delhi

NEGOTIATIONS on a £160m contract for British Aerospace to sell India 11 Sea Harrier jump jets and Sea Eagle missiles were finalised in New Delhi on Friday. The contract is subject to Indian Cabinet approval.

Both sides appeared to want to finish detailed negotiations, including a memorandum of understanding on the sale, before a two-day visit to the UK by Mr Rajiv Gandhi, Indian Prime Minister, which starts this morning.

Mr Gandhi does not want to become involved in trade negotiations during his visit and it is not clear whether he will make any public reference to the contract. The deal follows an earlier order in 1979 for eight Sea Harriers, now in service with the Indian Navy.

Mr Gandhi may also briefly discuss the expected order by India's embryo Helicopter Corporation for 21 Westland W30 helicopters worth £65m to £85m.

France's Aerospatiale is also expressing confidence about winning this order for its Dauphin helicopters and it seems that, after negotiations lasting nearly two years, India may order from both companies.

Delhi has also recently concluded a £10m deal with Westland for spares for its fleet of Sea King helicopters ordered two years ago.

PETROCHEMICALS DISPUTE OVERSHADOWS MINISTERIAL TALKS

EEC, Gulf talks under a cloud

BY QUENTIN PEEL IN BRUSSELS

THE GROWING dispute over duty-free access for petrochemicals to the European market is threatening to overshadow the first ministerial-level talks between the EEC and the six-nation Gulf Co-operation Council, taking place in Luxembourg today.

Duties have been imposed by the European Community this year on exports of both methanol and polyethylene from Saudi Arabia, after both products exceeded their modest duty-free ceilings under the Generalised System of Preferences (GSP) by a large amount.

Rumbles of possible retaliation have been heard from the Gulf, with suggestions that EEC exports to Saudi Arabia could suffer the imposition of customs duties of up to 20 per cent.

Officials in Brussels insist that today's talks will not amount to any negotiation, either on the petrochemicals problem, or on the long-standing plan for a broad co-operation agreement between the EEC and the GCC.

They are intended rather to give a political impetus to the still undefined goals of such a co-operation deal, which would cover not only trade questions but also industrial co-operation, investment agreements, exchange of technology — and energy issues.

The EEC side will be headed by M Jacques Poos, Foreign Minister of Luxembourg and president of the Council of Ministers.

The GCC team consists of Sheikh Sabah Al Ahmed al Jaber, Foreign Minister of Kuwait and chairman of the GCC Ministerial Council, and Mr Abdulla Bishara, GCC Secretary General.

Any agreement on a general co-operation deal seems highly unlikely without agreement on access to the EEC market for the rapidly expanding Gulf petrochemicals industry.

The EEC negotiators, under pressure from a European petrochemicals industry already suffering from excess capacity, have little desire to go beyond the present GSP arrangement under which tariffs can be imposed (13.5 per cent in the case of methanol) once a very modest duty-free ceiling has been exceeded.

They argue that the tariffs were only imposed this year on methanol and polyethylene once the ceilings had been exceeded 16 times. Moreover the imposition of duties does not seem to have disrupted Saudi exports of methanol, which topped Ecu 21m (£12.4m) by the end of 1984.

Saudi Arabia maintains that the Community which enjoys extensive duty-free access to its market and recorded a trade surplus with Saudi Arabia in 1984, should reciprocate with more generous treatment for petrochemicals.

AT & T-Philips to supply Dutch with telephone lines

BY LAURA RAUN IN AMSTERDAM

AT&T-PHILIPS, the U.S. Dutch telecommunications joint venture, will supply 1m telephone lines as part of a Fl 1bn (£238m) contract to begin a modernisation of the Dutch Telephone network.

The contract from the Post-Telephone-Telegraph (PTT) agency also includes an order received last year for five 5-ESS-PRX digital switching systems and several PRX/A analog switching systems.

The joint venture was chosen last March as one of two main suppliers for the 20-year, Fl 6-8bn renovation of the Netherlands' entire telephone network. The second supplier is L. M. Ericsson of Sweden.

The contract is far and away the largest ever received by the struggling AT&T-Philips, which was established early in 1983 amid fierce competition between companies such as Ericsson and International Telephone and Telegraph (ITT) of the U.S.

The order is seen as boosting AT&T-Philips' prospects by increasing the scale of activities needed for production development and exports.

The 1m telephone lines will be delivered to the Dutch PTT between 1987 and 1991, and the first of the digital switching systems will be installed this year. The equipment is being manufactured in AT&T-Philips' Hague factory

Bid to forge International Sugar Agreement resumes

BY ANDREW GOWERS

PRELIMINARY EFFORTS are under way to relaunch the search for a new International Sugar Agreement. The world's four biggest sugar exporters — Cuba, the EEC, Australia and Brazil —are planning a high-level meeting next month to discuss how to improve the extremely depressed world sugar market.

Apart from routine consultations in the London-based International Sugar Organisation, this would be the first meeting between the four exporters since talks on a sugar pact collapsed in Geneva 15 months ago.

Since then, free market prices have plumbed record lows in real terms as exporters have continued to dump their surplus sugar. Prices have recovered in recent months, but they are still well below the production costs of even the most efficient producer.

The Geneva talks broke down because major exporters could not agree to hold back their sales to prop up world prices. It is not yet clear whether attitudes have changed sufficiently to get negotiations off the ground again, but insiders point to at least two hopeful signs over the last few months; Brazil has started cutting production and holding back exports; and the EEC is making efforts to keep a ceiling on exports subsidies it says to match world prices.

Italian engineering exports 'at risk'

By Alan Friedman in Milan

ITALY'S ENGINEERING sector faces the risk of a serious deterioration in its export performance, according to Nomisma, the highly regarded economic research institute founded in 1981 by Prof Romano Prodi, chairman of the IRI state holding group.

In the first half of this year Italian engineering recorded an overall trade surplus of $3.1bn (£2.4bn), which represented a fall of $1.4bn on the level in the first half of 1984.

According to Nomisma, a general drop in world demand for traditional machinery and household appliances saw Italian exports of these products decline by $500m, but imports rise by $100m in the six months to June 30.

A large increase in imports of office equipment, telecommunications and aircraft meant this category doubled its first half trade deficit to $1bn. The third category in Nomisma's engineering sector — vehicles and transport equipment—went from a $100m surplus to a $200m deficit in the same period.

The Bologna-based research institute said yesterday that while the trade deficit in the energy and food sectors remained large, problems for the overall Italian trade performance, a deteriorating performance by the engineering sector was cause for concern.

The drop in world demand for machinery and household appliances was particularly alarming as Italy is quite vulnerable in these categories, said Dr Alberto Quadrio Curzio of Nomisma.

For the full-year, Nomisma predicted an Italian trade deficit of L30,000bn ($16.8bn), which would be 57 per cent higher than last year's record L19,168bn.

Singapore awards S$227m metro contract

By Chris Sherwell in Singapore

A JOINT venture between Nishimatsu of Japan and Lum Chang, a quoted Singapore contractor, has achieved its third major contract on the island state's S$5bn (£1.5bn) Mass Rapid Transit metro project.

The latest award is a double construction contract for two underground stations and connected tunnels, and was secured with a bid of S$227.1m which included a deferred credit. The offer beat those of six other bidders, including a UK-Singapore consortium which involved Lilley Construction and Kier International.

The work is for part of Phase II of the MRT project. The Nishimatsu and Lum Chang consortium previously won a station and tunnelling contract on Phase I and, more significantly, the contract to build the main railway depot at Bishan, in the heart of the island.

Montedison in E. German deal

By Our Milan Correspondent

MONTEDISON, Italy's leading chemicals group, has concluded a $250m five-year co-operation agreement with the Government of East Germany.

Under the terms of the accord, signed at the weekend, the Italian group is to supply AHB Chemie Export-Import, the East German state company, with chemical products and will purchase from East Germany as well. The accord, to run from 1986 to 1990, also calls for technology transfer, exchange of research and the possible construction of plants by Montedison in East Germany.

Montedison projected sales to East Germany represent around two-thirds of the $250m. The rest will be East German exports to Italy.

SHIPPING REPORT

Iran 'still exporting large cargoes of crude oil'

BY ANDREW FISHER, SHIPPING CORRESPONDENT

IRAQ'S RECENT air strike against Iran's oil terminal at Kharg Island may not have had the devastating effect on the latter's crude oil exports as first thought, according to a leading London shipbroker.

A number of large cargoes have been lifted from the storage area off Sirri Island, which is away from the main fighting area, and has been served by an Iranian fleet of shuttle tankers, said Galbraith's.

British Petroleum fixed a 330,000-ton cargo from Sirri Island to north-west Europe at Worldscale 24, in line with recent levels. Ssangyong Oil of South Korea arranged a cargo of 245,000 tons to Korea at Worldscale 28.

Elsewhere, said Galbraith's, business was fair, with a sizeable number of fixtures from West Africa. The North Sea was also moderately active, while the Mediterranean remained quiet.

The broker noted that the after-effects of the Sanko collapse in Japan were starting to filter through to the market. Independently owned vessels that were on long-term charters to the company are back with the original owners and thus available for business.

While the Sanko fleet has been unable to trade because of the financial and other restrictions placed on it after the collapse, the 80,000-ton vessel market has picked up. But this could change, once the banks start sorting matters out.

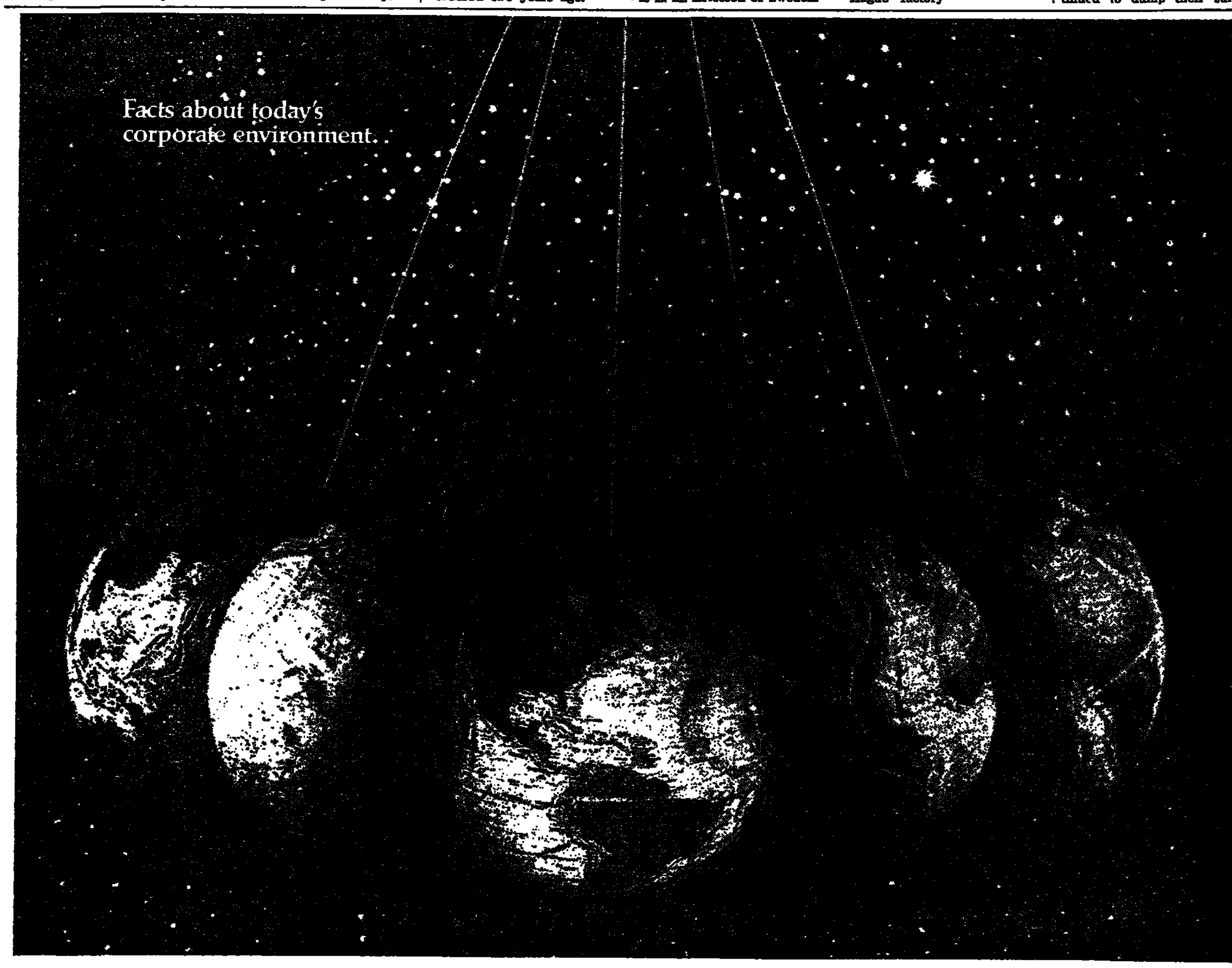
On the dry cargo market, where rates rose in late September, the trend was down for the second week. The grain rate from the U.S. Gulf to Japan eased to $13 (£9.3) a ton from just over $13.50 the previous week. The U.S. Gulf-Europe rate was $7.50, down from $8, said broker Denholm Coates.

World Economic Indicators

INDUSTRIAL PRODUCTION (1980 = 100)

					% change over previous year
	August 85	July 85	June 85	August 84	
U.S.	114.9	115.0	114.8	113.7	+1.1
	July 85	June 85	May 85	July 84	
W. Germany	107.1	103.3	103.9	100.3	+6.8
UK	106.4	107.5	107.9	102.0	+4.3
Japan	124.4	122.3	124.8	117.0	+6.3
Italy	95.0	100.7	97.3	93.6	+1.5
	June 85	May 85	April 85	June 84	
Netherlands	104.0	101.9	101.0	102.3	+1.7
Belgium	107.2	102.9	101.9	102.6	+4.5

Source (except U.S., Japan): Eurostat



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WHERE THE WORLD IS AT HOME℠

Austin Rover may cut 800 jobs in closures

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

AUSTIN ROVER, BL's volume cars company, is thought to be considering axeing 800 jobs to cut its toolroom work force by more than a third.

Mr Harold Musgrove, the Austin Rover chairman, has previously told union leaders a review of plants was under way. They say he stressed the need for the company to get its cost base right, and that he would not hesitate to close plants if necessary.

The main cutback will be among toolmakers, whose disputes over pay differentials in the late 1970s, disrupted production. About 800 jobs would go, cutting toolroom staff by more than a third.

The cuts are being forced by the slowdown of Austin Rover's model development programme. The programme that brought in the Metro, Maestro and Montego lines has given way to a more regular replacement cycle.

Closing the toolrooms at Castle Bromwich, Birmingham, with 600 workers, and Dunstable, in Bedfordshire, with 100, would mean virtual closure of both Austin Rover plants. Jaguar body assembly operations at Castle Bromwich will be unaffected.

Another 100 jobs would be lost by closing the tool room at the Llanelli plant in South Wales.

Austin Rover said last night all activities were constantly under review to remain cost competitive. But there had been "no conclusions made by the management on toolrooms."

The company confirmed, however, that Mr Musgrove had indicated to union leaders that a factor, with 150 workers at Coventry was to be phased out as its main products are engines for the Rover saloon.

Austin Rover said the Coventry workers would be offered alternative employment at Cowley or other sites.

This model will be replaced eventually by the new "executive" car being made with Honda of Japan, and due for its UK launch next summer.

The company confirmed last week that 27,000 workers will be laid off and almost all production stopped during the week beginning October 28.

The move, to reduce stocks, follows a shutdown at the end of September. Production of the Metro, Maestro and Montego lines has been cut by around 10 per cent.

Pit incentive scheme planned

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE NATIONAL Coal Board will tomorrow open wage talks with both the National Union of Mineworkers (NUM) in London and the breakaway Nottinghamshire mineworkers at Eastwood near Nottingham. During the negotiations it is expected to offer the Notts men an incentive scheme which will pay higher bonuses for more production.

It is unlikely to discriminate between the NUM and the union's breakaway section in its offer on basic rates, which will be low. The new incentive package will, in theory, be available to all miners but only on certain conditions that the NUM – which is firmly opposed to incentive payments – is unlikely to be able to fulfil.

The meeting is a "listening" meeting in which unions present their claims. However, it is expected that the board will respond quickly to the claim from Notts to assist the area's leaders in their ballot on the formation of a national federation – the Union of Democratic Mineworkers – which takes place on Thursday and Friday of this week.

In a letter to the Notts leaders, the board makes it clear that any award to the area's miners would not be worse in any way than that concluded with the NUM.

In informal talks over the past week, the Notts officials have pushed for a higher basic offer of at least the level of inflation (6.2 per cent), higher incentive bonus payments and better holiday pay.

The board is thinking of a basic increase much lower than 6.2 per cent, but also of a scheme that pays for coal produced rather than, as at present, simply for effort. This would pay very high rewards to miners in the thick-seamed profitable *pits.*

Opinion in Nottinghamshire is strong that a negotiation which appears likely to succeed will swing the vote in favour of the formation of a new federation by somewhere between 60 and 70 per cent.

City funds raised by Branson for growth

By Terry Garrett

MR RICHARD BRANSON'S Virgin Group, which is involved in a range of activities from pop music to a transatlantic airline, is raising £15m from City of London institutions to finance expansion.

Morgan Grenfell, the merchant bank, and stockbroker Rowe & Pitman have arranged a placing of convertible 7 per cent preference stock with a group of a dozen institutions.

Until now the rapid development of Virgin, which was started by Branson as a mail order business 15 years ago, has been financed by bank borrowings.

This is the first time the group has raised money in the City. The move is largely motivated by the desire to establish a rapport with investing institutions prior to launching Virgin as a quoted public company, an event which will not happen for at least a year.

The preference shares are unusual in that there are no fixed terms for conversion into ordinary shares. Instead, when the group goes public, the preference shares will convert at a price equal to 95 per cent of the price of the public offer.

Mr Branson was yesterday unavailable for comment. But it is understood that the money being raised might be used for acquisitions.

Virgin's activities include music publishing and recording, record shops, clubs and restaurants, and films and videos. Last year Virgin started a scheduled air service from London to New York.

Invisible exports warning given

BY CHRISTIAN TYLER, TRADE EDITOR

BRITAIN'S service sector will not be able to recapture the jobs and foreign earnings lost by a declining manufacturing industry and falling oil revenues, the British Invisible Exports Council warns today.

The number of jobs in manufacturing fell by 2.3m to 5.4m in the decade to 1984, says the council's latest annual report, but employment in private services rose only 1.4m to 11.6m. The internationally tradable services now employ 8.3m people, or 40 per cent of the workforce.

The council's warning comes at an important moment in the debate about the UK's trade prospects.

On Wednesday, a House of Lords select committee is to report on the same subject. The committee on overseas trade, which includes a number of eminent former industrialists, has been taking evidence on whether Britain will be able to plug the earnings gap left when North Sea oil revenues dry up during the next decade.

Today's report gives little comfort for the optimists, who include the Chancellor of the Exchequer. It suggests that services, with the notable exception of shipping, are performing well but not well enough to maintain the present level of employment and trade.

British private-sector invisible exports grossed £36.5bn in 1984, compared with £70.4bn for visible exports. The net surplus on invisibles was £9.2bn, of which about £8bn was earned by the City of London, compared with a net deficit on the visible trade account of £4.3bn.

The UK's share of the world market in invisible trade has fallen to 8.5 per cent in 1983 compared with 12.0 per cent five years before. That is attributed to an overall increase in the world markets and to the emergence of financial sectors such as Tokyo, Hong Kong, Singapore, Bahrain and Nassau.

Commenting on the figures, Mr William Clarke, director general of the council, said: "We are not convinced that either in jobs or foreign income can we actually fill the gap that has been opened up by the decline already seen in manufacturing and the growing trade deficit in manufactures.

"Nor can we fill the gap left by the decline in oil revenues, although we are confident that our surplus of £9bn will be maintained and increased."

Both manufacturing and service exports should be supported by government, he said.

UK CURRENT ACCOUNT BALANCES (£ millions)

	1973	1976	1979	1982	1983	1984
Manufactures	+1,488	+4,916	+2,898	+2,264	−2,379	−3,841
Oil	− 941	−3,947	− 731	+4,558	+6,846	+7,136
Other*	−3,133	−4,899	−5,416	−4,765	−5,632	−7,550
Total visibles	−2,586	−3,930	3,449	+2,055	−4,165	−4,255
Private invisibles	+2,573	+5,186	+6,328	+6,353	+8,297	+9,196
Government invisibles	− 966	−2,103	−3,404	−3,485	−3,886	−4,317
Invisibles	+1,607	+3,083	+2,924	+2,868	4,411	+4,879
Current a/c balance	− 979	− 847	− 525	+4,923	+3,246	+ 624

* Food, drink and tobacco, basic materials, non-oil fuels

Source: British Invisible Exports Council

CBI urges sharp cut in pay settlements

BY ANATOLE KALETSKY

PAY SETTLEMENTS in the current wage round will have to fall by at least 2 percentage points below their level last year if Britain is to retain its international competitiveness, according to the Confederation of British Industry.

The CBI's regular analysis of its pay data bank, published today, shows that settlements in manufacturing industry averaged 6¾ per cent during the past three months, having edged up steadily since 1983.

The settlements cover basic wages only and tend to be well below the actual growth of earnings in the economy.

Sir Terence Beckett, the CBI's director general, said the figures showed that "the writing is on the wall" for British industry unless pay settlements are cut sharply.

Unit labour costs in Britain have been rising faster than in its main trading rivals. Britain's labour costs are now 6½ per cent higher than a year ago, compared with an increase of 3 per cent in the U.S., a decline of 1 per cent in Japan and a fall of 2 per cent in Germany.

The slight acceleration of pay increases to 6¾ per cent follows average pay settlements of 6½ per cent in the first half of 1985, 5.9 per cent in 1984 and 5.6 per cent in the second half of 1983.

This trend is worrying the Government as well as the CBI, since it suggests that negotiators in industry and the trade unions have not heeded warnings linking high pay to unemployment.

Moreover, the prevalence of what the CBI and Government see as dangerously high settlements seems general throughout the economy. Outside the manufacturing sector, the CBI's figures show pay increases in the service industries, holding steady at just under 7 per cent in the last nine months.

The detailed analysis of manufacturing industry bargaining shows that 75 per cent of settlements ranged from 4½ to 7½ per cent and nearly a fifth were above 7½ per cent.

Only 7 per cent of settlements during the last 12 months were for increases of 4½ per cent or less.

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$1,000 COUPON BONDS

3653	4911	7327	8090	9710	10265	11741	13062	17858	22012	23038	23964	25864	27456	28784	29258
61	4914	7330	8094	9711	10271	11742	13088	17868	22015	23041	23965	25865	27458	28753	29259
67	4955	7335	8097	9718	10275	11743	13099	17878	22021	23048	23968	25873	27464	28754	29273
68	4956	7338	8108	9725	10280	11744	13100	17880	22032	23089	24171	25874	27465	28761	29274
70	5310	7340	8111	9733	10285	11745	13101	18102	22035	23092	24189	25880	27466	28776	29276
547	5383	7341	8114	9736	10290	11759	13102	18103	22038	23095	24198	25885	27467	28777	29279
571	5384	7342	8118	9739	10292	11764	13111	18108	22040	23098	24219	25886	27482	28787	29283
573	5370	7348	8128	9772	10293	11872	13207	18126	22062	23100	24237	25894	27496	28789	29294
576	5564	7367	8131	9779	10306	11881	13249	18596	22083	23108	24240	25895	27499	28790	29301
577	5565	7369	8137	9781	10311	11883	13250	18597	22064	23111	24242	25898	27500	28791	29323
583	5821	7374	8141	9790	10320	11897	13253	18604	22085	23112	24244	25899	27511	28793	29324
656	5841	7397	8142	9793	10323	11901	13333	18613	22086	23115	24265	25906	27514	28796	29327
682	5860	7398	8146	9794	10329	11904	13334	18725	22087	23120	24269	25909	27516	28803	29345
720	5662	7571	8152	9808	10349	11911	13411	18737	22088	23127	25051	25914	27524	28810	29347
890	5666	7578	8164	9811	10352	11912	13414	18761	22089	23135	25055	25921	27527	28812	29353
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4909	7323	8086	9700	10261	11729	13077	17585	21999	23005	23949	25846	27446	28727	29280	29993
4910	7324	8087	9702	10264	11736	13080	17639	22005	23038	23960	25852	27449	28732	29282	29994

Payment of the redemption price of the Bonds specified above will be made on the annual redemption date at the redemption price of 100 percent of the principal amount thereof, (a) at the Corporate Trust Services Department, of Citibank, N.A. (formerly First National City Bank), the Principal Paying Agent under the Trust Deed referred to above, No. 111 Wall Street, in the Borough of Manhattan, The City of New York or (b) subject to any laws or regulations applicable thereto, at the main offices of Citibank, N.A. in Amsterdam, Frankfurt/Main, London, Paris, Brussels, and Citicorp (Luxembourg) S.A. in Luxembourg, and the principal offices of Lloyds Bank International Limited (formerly Lloyds & Bolsa International Bank Limited) in Amsterdam, Lloyds Bank International (Belgium) S.A. (formerly Lloyds Bank (Belgium) S.A.) in Brussels, Lloyds Bank Limited in London and Lloyds Bank International (France) Limited (formerly Lloyds Bank Europe Limited) in Paris. Payments at the offices referred to in (b) above will be made by a United States dollar check drawn on a bank in New York City, or by a transfer to a United States dollar account maintained by the payee with a bank in New York City, on November 15, 1985. On and after the *annual redemption date, interest on the said* Bonds will cease to accrue, and, upon presentation and surrender of such Bonds with all coupons appertaining thereto maturing after the date fixed for redemption, payment will be made at the said redemption price out of funds to be deposited with the Principal Paying Agent. The amount of any missing unmatured coupons will be deducted from the sum due for payment.

Coupons due November 15, 1985 should be detached and presented for payment in the usual manner.

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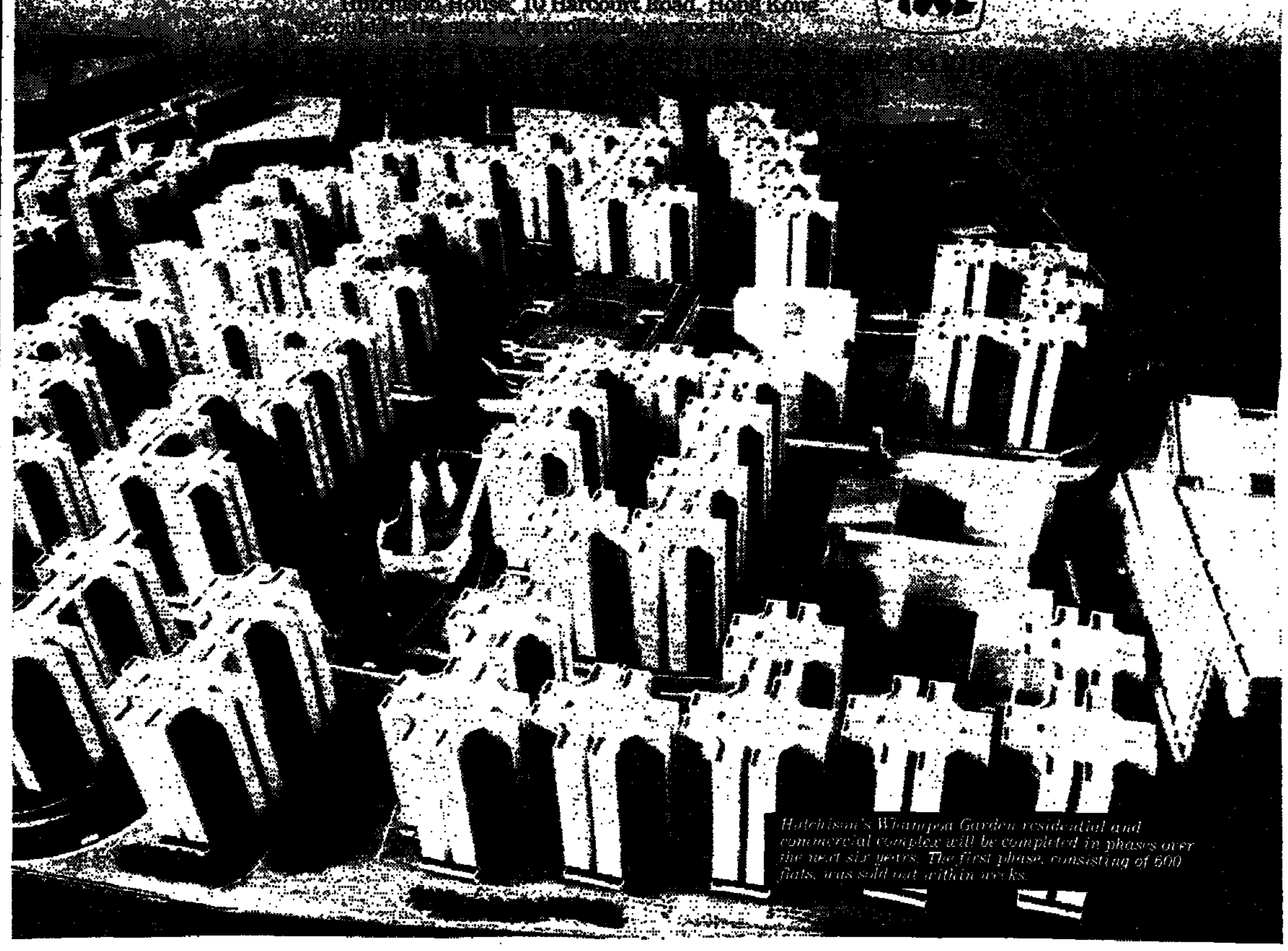

Hutchison's Whampoa Garden residential and commercial complex will be completed in phases over the next six years. The first phase, consisting of 600 flats, was sold out within weeks.

UK NEWS

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New form of hotel grading introduced

By James McDonald

A NEW national voluntary system of classifying hotels, guest-houses and other types of serviced accommodation is to be introduced throughout Britain.

It is aimed at helping British and overseas visitors to select establishments that meet individual needs and to provide an assured standard of accommodation and service.

The new tourist board classifications of accommodation will become available for display on premises next year, and will be used in English, Scottish and Welsh tourist board accommodation guides from 1987 onwards. They will replace in England the English Rose classification system.

Under the new system, serviced establishments will be classified within one of six categories. These will range from: "listed" or basic accommodation, through one to five crowns. The classifications will be given according to the accommodation and range of facilities provided.

Establishments wishing to be classified will have to meet tourist board minimum standards and abide by the board's code of conduct. A high standard of cleanliness and courtesy is necessary and buildings and contents must be in a good state of repair and fit for the purposes intended.

Tourist board classifications will only be granted when the boards are satisfied their standards are being met. All classified establishments will be subject to routine, periodic checks to ensure standards are being maintained.

Dairy industry and milk board disagree over plant closures

BY ANDREW GOWERS

INDEPENDENT dairy companies are embroiled in a new dispute with the Milk Marketing Board (MMB) of England and Wales over plans to reduce the industry's large surplus manufacturing capacity.

Preliminary discussions are taking place between the Dairy Trade Federation (DTF), which represents private dairy companies like Unigate, Express and Northern Foods, and the MMB on rationalisation plans which will almost certainly result in the closure of several butter manufacturing plants and lead to further job losses in the industry.

But the two sides are having difficulty in agreeing where the axe should fall. The independent dairies are arguing that the Board's manufacturing subsidiary, Dairy Crest, which has a large proportion of butter and cheese-making capacity in England and Wales should bear the brunt, but the MMB apparently wants to share the burden more evenly across the industry.

Although there has been over-capacity in the industry for some time, the present problem stems from the imposition of milk production quotas by the European Community in April of last year.

British farmers have been consistently producing below their quota since then, with the result that the supply of milk for manufacture into butter has fallen by about 17 per cent.

Estimates of surplus manufacturing capacity range from 20 to 50 per cent for butter and skimmed milk powder, and from 20 to 25 per cent for cheese. Many people in the industry believe the surplus capacity problem will get worse when milk quotas are further reduced, as is widely expected to occur in 1986.

A senior MMB official confirmed at the weekend that talks were taking place with the DTF on a possible rationalisation of the industry, but he said any decisions on plant closures would be left to individual companies. He thought it might be possible to avoid closing complete factories by mothballing individual production lines as Dairy Crest did last year, with the loss of several hundred jobs.

Research 'not priority'

BY GUY DE JONQUIERES

FEWER THAN half of the small and medium-sized UK-based electrical manufacturers polled in an industry survey say they invest in basic research and almost a third spend less than £20,000 a year on it.

The survey, by the Federation of British Electrotechnical and Allied Manufacturers' Associations (Beama), found that annual company spending on research averaged £3,290. Product development spending averaged £49,700 and was undertaken by 96 per cent of companies surveyed.

Beama, which has 500 members, found that companies were reluctant to borrow for research and development, while interest rates were high unless they could expect gross profits of between 23 per cent and 40 per cent on new projects.

Survey on Research and Development, Beama Ltd., 8 Leicester St, London WC2H 7BN, £15.

Cost of company audits rises 9%

By Barry Riley, Financial Editor

THE COST of company audits is rising at a rate of 9 per cent a year, according to a survey of 12,600 British companies that paid total audit fees of £276m in their latest financial years.

Striking anomalies exist in the levels of fees paid by comparable companies, according to the publisher of the 10-volume survey. Regional and industrial breakdowns of the data enable companies to check their fees against those paid by similar concerns.

It emerges that manufacturing companies on average pay over 50 per cent more in audit fees in relation to their sales than do service companies.

The analysis is based upon a structured sample of 12,600 companies, of which 5 per cent are publicly quoted companies, 45 per cent are subsidiaries of other companies, and 50 per cent are independent private concerns. They are thought to represent between 20 and 30 per cent of the total corporate sector.

Aggregate profits of £22.5bn were reported, in most cases for financial years ending during 1984. That was an increase of 25 per cent over the previous year. Regional increases ranged from a peak of 70 per cent in the Midlands to only 12 per cent in Scotland. Directors' emoluments rose by 12 per cent, taking the country as a whole.

Although more than 1,900 firms of accountants figure in the survey, the top 10 firms are shown to audit 44per cent of the companies, and their aggregate fees of £205m represent 74 per cent of the total.

Price £45 a volume from The Audit Fee Guide, 79–80 Chancery Lane, London WC2A 1DD.

Pound 'to weaken next year'

THE POUND is likely to drift downwards again next year, mainly because of weaker oil prices, says Phillips & Drew, the stockbrokers.

Its latest World Investment Review says that UK interest rates are likely to remain high by international standards and that the downward movement of the pound will help to sustain the profits growth of the company sector.

UK company earnings are projected to rise by a further 13 per cent in 1986, after growth of 9 per cent this year.

Phillips & Drew says that increased consumer spending will keep the economy moving ahead, with real gross domestic product expected to rise by 1.7 per cent next year.

For the U.S., it is expecting economic growth to slow down to 1.9 per cent next year after year-on-year growth of 2.5 per cent in 1985.

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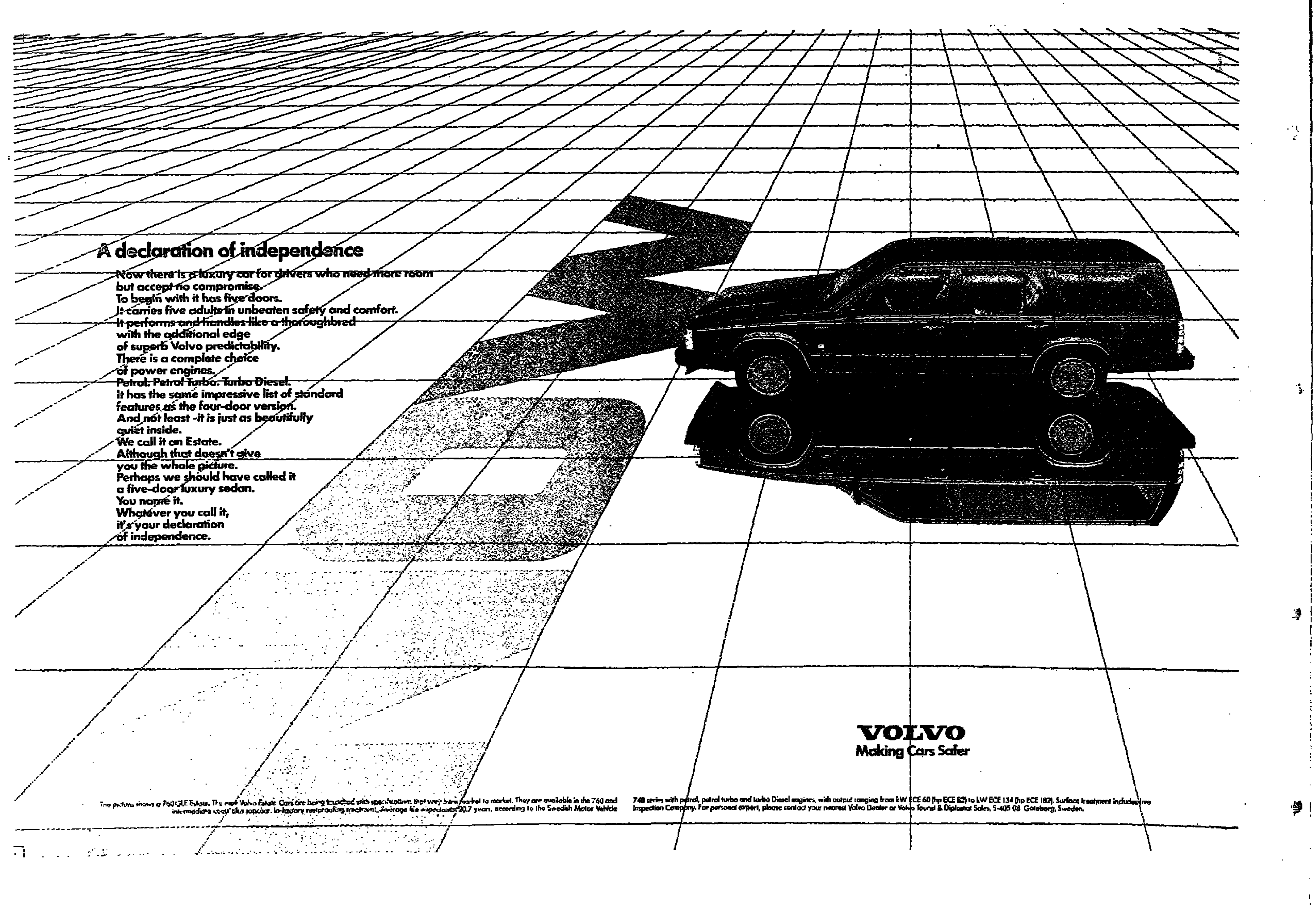

UK NEWS

Renault truck offshoot cuts losses to £10m

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

RENAULT TRUCK Industries (RTI), the UK subsidiary of the state-owned French group, reduced its pre-tax loss from £12.44m in 1983 to £10.2m last year, and 1985 will show a further improvement in the financial position, according to Mr Laurent Brisset, the chairman and managing director.

Last year's loss will be covered by another subvention from Renault Vehicules Industriels (RVI), the parent company and commercial vehicle offshoot of the French group. This means that RVI has spent nearly £40m to buy the UK company, formerly known as Dodge, and to cover its losses in the past four years.

The UK company was formerly owned by Peugeot of France, which acquired it with other European assets of the Chrysler group in 1979. Under the terms of the sale agreement Peugeot had to bear its share of the losses of the British company until 1983.

RTI's losses have been reduced from £28m in 1981, the year Renault took over, but Mr Brisset says the rate of improvement will slow down.

However, he expects RTI will pass the financial break-even point in another two or three years.

The financial improvement has been achieved without losing sight of the prime objective: establishing Renault as a significant force in the UK truck business.

Much will depend on the range of heavy trucks, based on RVI designs, which are progressively going into production at the British factory.

RTI expects to sell about 650 heavy trucks (over 15 tonnes gross weight) in the UK in 1985, including 150 imported from France. Within a year to 18 months the company hopes to increase annual heavy truck sales to 1,200 with all the extra vehicles being provided by the British factory.

Starting in January next year the company will begin complete assembly of the cab employed on the G-range of trucks, with panels imported from France.

RTI has invested a relatively modest £2m to £3m to put the Renault heavyweight trucks into production and to make the cab. Its Dunstable plant in Bedfordshire was already one of the most modern and flexible commercial vehicle facilities in Britain.

Mr Brisset says that RTI's total production of Dodge and Renault vehicles this year will be substantially over 5,000, compared with 4,770 in 1984. However, in order to prevent stocks building up to excessive levels there will be some short-time working on the Commando medium-truck lines in November.

Employment by RTI has now stabilised at 1,500.

The company recently set up two wholly owned dealerships, in Glasgow and Birmingham, taking the total to four (the others are in London and Cleveland).

Mr Brisset points out that the wholly owned outlets ensure coverage of important areas and also put RTI more closely in touch with the ultimate customer as well as providing a training ground for some commercial staff.

Treasury facing defeat on move to alter prices index

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

TREASURY EFFORTS to remove a measure of mortgage interest rates from the Retail Prices Index seem certain to be defeated during the next few months.

On Tuesday the Treasury is likely to find itself in a minority at a crucial meeting of the committee set up last summer to discuss reforms to the RPI. Its main opponents will be trade union and consumer representatives, but the Department of Employment is likely to take a cautious line.

This will disappoint ministers, who were embarrassed by the sharp rise in the annual inflation rate to 7 per cent this summer – largely because of government policies which pushed up interest rates, including the mortgage rate.

The Treasury has been worried that the inclusion of the mortgage rate in the prices index will lead to perverse results for a Government pledged to control inflation by monetary discipline.

Any tightening of monetary policy rapidly feeds through into a higher annual inflation figure via the mortgage rate. This suggestion that lower mortgage rates lead to lower inflation is the opposite of the Government's message.

Another perverse effect is that planned income tax cuts would appear to push up inflation.

This is because mortgage payments are measured after tax relief. So, as the basic rate of income tax is cut, tax relief is also reduced by a small but significant amount. A 3 percentage point cut in the basic tax rate would raise inflation by nearly ¾ of a percentage point.

The Treasury argues that the cost of borrowing for houses or other goods is essentially different from the prices charged for those goods and should not be part of the RPI.

It has also pointed out that Canada is the only other large country which treats the mortgage rate as part of the cost-of-living index.

The Treasury also says a rise in the cost of mortgage borrowing has little effect on the spending power of consumers as a whole. Householders will be worse off, but savers will be proportionally better off.

However the RPI committee, which includes representatives of independent bodies, has so far been unimpressed by the alternatives.

Before 1977 housing costs were shown by an index of "imputed rents," but these were difficult to keep up to date. This system is still used in Japan, West Germany, the Netherlands and Belgium, but the UK is unlikely to go back to it.

One possibility would be to follow the example of France and Switzerland, where housing costs are left out of the cost-of-living index. However, this would raise a storm of protest from the trade unions.

The Government, too, would be unwilling to make any changes which undermined general confidence in the RPI partly because its own sales of index-linked gilt-edged stock could be hurt.

Treasury admission on public sector pay

By David Brindle

MR JOHN MacGregor, Chief Secretary to the Treasury, has admitted in a leaked memo that pay factors built into the budgets of Government departments have been "artificially low."

Inability to continue openly with such deliberate under-estimates is given by Mr MacGregor as the main reason for not announcing a further 3 per cent pay assumption for the public sector this year, under the new system of departmental running-cost targets.

He says more realistic provision for pay should be considered while "we must at all costs avoid the erroneous impression that the Government's commitment to public expenditure control has in any way weakened."

Mr MacGregor's comments come in a memo to the Prime Minister and her Cabinet. The Society of Civil and Public Servants, the trade union for middle-management grade civil servants, obtained a copy.

The society is disclosing the document, dated September 10, in anticipation of the Treasury's proposals, to re-establish a pay determination system for the Civil Service. The society is expected to oppose such an offer.

Mr Leslie Christie, the society's general-secretary designate, said the admission, together with the maintenance of cash limits, showed the government's duplicity.

"Civil Service pay has fallen around 29 per cent behind comparable outside jobs since 1980 and yet the Government clearly have no intention of abandoning the cash limits system which has produced this situation."

The memo offers the first explanation of why the government abandoned a formal target for public sector pay increases after two successive three per cent figures and 3.5 per cent the previous year.

Mr MacGregor says the proposed departmental running cost targets, will be "tough but realistic." Delegated budgets within departments cannot be indefinitely based on artificially low pay assumptions, and the usefulness of a pay assumption which would again be no more than 3 per cent would be "highly questionable."

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Gas

Gas fuels profits.

Europe, June 1985.

In the exclusive middle-range saloon market, there's now a completely new reason for choosing the BMW 5-Series. It's the competition.

Are you aware of all the facts?

Over the past few months, BMW 5-Series competitors have been getting quite excited.
As a result of some admittedly not entirely uninteresting new model introductions.
We welcome the news.
Because it at last gives Europe's more demanding drivers a real basis for checking out which car actually offers them the best value for their money.
Naturally, you can take features like high quality construction, a contemporary design concept, exceptional standards of comfort and safety for granted in any internationally recognised car of this class.
And they're all reasons enough for driving an above-average car.
However, we still don't think they're enough to help you choose between the very best alternatives at this level.
We believe it's essential to take a closer look at the fundamental differences between the leading makes before making your decision.
So we'd like to give you a few factual hints in that direction.

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You'll be surprised how many cars with impressive-sounding names, and equally impressive prices, still offer conventional carburettor technology.
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More than anything else, BMW exclusivity stands for the very latest in automotive technologies.
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These days, any so-called quality car range that doesn't offer you Digital Motor Electronics, isn't offering you the best in engine technology.
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Digital Motor Electronics (DME) – the completely computerised engine management and control system – ensures far-reaching fuel-mix and ignition advantages, in terms of performance, economy and exhaust emissions, even when used in conjunction with a catalyst.
As many as four of the 5-Series models feature DME: a technology you'll search for in vain on comparable cars of another make.

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An in-line 6-cylinder engine guarantees noticeably smoother running refinement than 4 or 5 cylinders.
BMW gives you all the benefits from as low as 2 litres.
The fact that it's universally accepted that 6 cylinders are a prerequisite for really top-class motoring refinement is amply illustrated by the number of manufacturers who offer it on their higher capacity and higher priced models.
A BMW owner is someone who isn't willing to compromise on refinement even at two litres.

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You can also judge the quality of a model range by its top models.
With the BMW 5-Series you can get up to 3.5 litres capacity and all the torque and unrivalled performance that goes with it.
Although the BMW 5-Series models belong to the so-called "exclusive middle-range" category, they nevertheless reflect – especially the high performance 535i, M 535i and M 5 versions – many of the superlative qualities of their larger stablemates, particularly in the exceptional ride and safety reserves of their advanced suspension system.

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The BMW 5-Series doesn't just meet the strictest quality criteria.
It also reflects the demands of our time.
BMW exploits the most advanced technologies available to resolve the conflict between dynamic and responsible driving.
And the BMW 5-Series combines the classic sporting personality of a BMW with a strictly functional sense of style to create a car with a truly unique character: the concentration on inner values, without the usual obtrusive demonstration of status, leads to a pleasingly new and unpretentious dimension in exclusivity – an understatement that takes a positive step towards the more critical and rational attitudes of our day.

If you compare, point by point, the various alternatives in terms of price and value, you're sure to come to the same conclusion as us. There's really only one answer:
BMW is the better way to drive.

But that's something you should experience for yourself.
So why not ask your nearest BMW dealer for a personal test drive?

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INSURANCE

Insurers fire a broadside at 'punitive' U.S. legal system

BY JOHN MOORE, CITY CORRESPONDENT

THE U.S. legal system has been under widespread attack by the international insurance community in the last few months. The latest broadside was launched last week by Mr Maurice Greenberg, president and chief executive of the U.S. insurance company American International Group.

"The number of punitive damage awards that we live with today is outrageous," he told delegates at the International Risk Management Conference in Monte Carlo.

"Punitive damages were introduced in the first place to punish a wrongdoer who was grossly, criminally negligent by forcing on him an additional payment as punishment.

"If this payment is passed on to an insurance company, the wrongdoer has not been pained at all. I think punitive damage awards have reached the point of absurdity."

Last month Mr Peter Miller, chairman of the Lloyd's insurance market, expressed similar sentiments at a seminar in Houston, Texas: "An insurer does not receive reasonable treatment in many United States courts." Mr Miller warned that the market for liability insurance, whether at Lloyd's or in the U.S. would virtually disappear in many areas unless reforms were implemented.

In 1984 the average product liability award in the U.S. courts was over $1m, compared with $345,000 ten years earlier. The average medical malpractice award was $950,000. U.S. property and casualty insurers lost $21bn in 1984 from underwriting liability and other business, and the investment gain of $17bn was not sufficient to pull the industry into profit.

Mr Greenberg said, the experience of the last 18 months among U.S. insurers had led to dramatic changes. "At mid-1985 many U.S. insurers were facing situations they could not have conceived of a year or so before."

Insurers were cancelling policies with little warning to a client, reducing cover to a fraction of former limits, and reporting that they were unable to accept new accounts in classes of business they had eagerly sought a few months before.

In the reinsurance market contracts which were normally finalised by the end of the calendar year, "in many cases remained unsigned until March of the following year."

The changes are a direct consequence of the disastrous underwriting experience of many insurers. But the underwriting experience has led to other consequences. Underwriters are now becoming "risk adverse" to liability business, and are curbing their activities in this area.

According to Mr Miller the withdrawal of capacity would cause companies to cease to trade in certain areas, and some companies could be bankrupted unless they were able to secure insurance protection.

"Doctors will not be able to practice," he warned, and "trade will be disrupted."

Mr Greenberg and Mr Miller agree that reforms should take place on the following lines: Insurance prices for this class of business should be "realistic". There should be a reformed wording of policies.

The insurance industry has been writing liability business on an "occurrence basis", covering any loss that occurred during the policy year no matter when that loss took place.

Now insurers are arguing that a "claims-made" basis should be adopted. The claims-made approach only responds to losses that occurred during the year the insured had the insurance. If the insured cancels the policy the following year no claims can be presented. That claim will be the responsibility of the successor insurer.

Mr Miller argues that an overall limit should be imposed on liability insurance policies which includes legal costs. Mr Greenberg argues that the present fee system for lawyers in the U.S. "encourages and proliferates lawsuits and all of us are paying for it."

His criticism is levelled at the contingency fee system, which operates only in the U.S. Under this arrangement a lawyer agrees to charge a fee only if he is successful in obtaining a monetary award for his client.

The amount can vary between 30 and 40 per cent of the award and is sometimes even higher. There have been signs of reform in this area. The New York State legislature has passed a bill designed to help the medical profession.

The bill reduces the contingency percentage of attorney's fees, ranging from 20 per cent of the first $250,000 of awards and scaling down to 10 per cent of amounts settled over $1.25m.

Mr Greenberg is also concerned about U.S. court decisions on product-related injuries. He says that in recent years court awards have drifted from strict liability standards to absolute liability considerations. It is, he argues, part of a continuing change in the legal criteria.

In the 1960s and 1970s laws moved away from a consideration of the negligence aspects of claims, which had studied the failure of the manufacturer to exercise reasonable care to avoid foreseeable conditions which might cause injury to another.

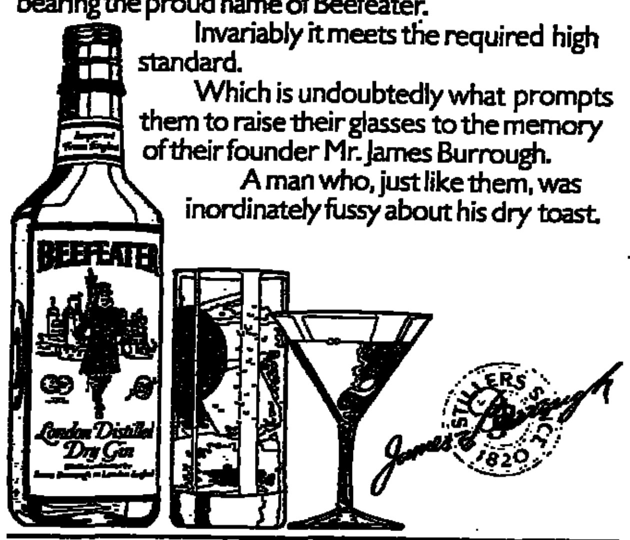
Strict liability for product-related injuries was introduced. A product manufacturer could be responsible to anyone injured by the use of his products, and even to those who misused them if their use was not too blatant.

Now absolute liability standards are applied by the U.S. courts, so that the manufacturer is held accountable for product design and failures to warn of potential hazards.

Court decisions he believes can often insist that the manufacturer is accountable for a product today rather than what he knew "20 years ago when it was being designed, tested and developed."

THE BREAKFAST TIME TOAST

At 9am each day the board members of James Burrough may be found making their toast.
That's the time when they sample and 'nose' the previous day's distillation of Beefeater London Dry.
They like their toast to be clear, brilliant and subtly balanced. With a dry softness that doesn't overwhelm the palate.
Only then is it allowed to leave the distillery bearing the proud name of Beefeater.
Invariably it meets the required high standard.
Which is undoubtedly what prompts them to raise their glasses to the memory of their founder Mr. James Burrough.
A man who, just like them, was inordinately fussy about his dry toast.



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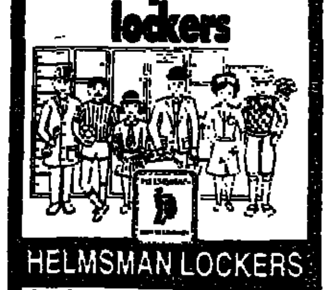

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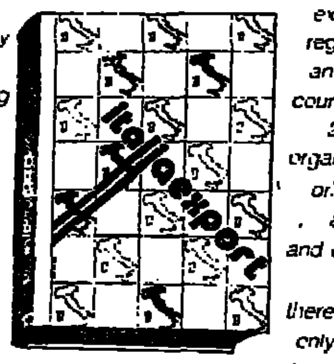

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THE GLENLIVET — DENIED BY THE KING

"Glenlivet Distillery? What Glenlivet Distillery?"

In the early 1800's, denying the existence of distilleries was a national Scottish pastime.

Oh, they were there, alright.

But all strictly illegal. You see, savage taxes imposed by the Philistines of Westminster made distilling the national beverage well nigh impossible.

Tax evasion became the only honourable course. The canny Highlanders took to the hills and the glens.

A whole industry flourished. But it was completely underground. Excisemen, or gaugers, marched North, with orders to stamp it out.

The Artful Dodgers.

But it proved a hopeless task. All measures to deter the distillers were met with ridicule.

Even a £5 reward for the discovery of a distilling pipe (or copper "worm") did nothing to halt the flow of whisky. In fact it was a boon for the whisky makers.

When a "worm" was worn out, the distiller would miraculously "find" it, hand it over to the authorities, claim his reward and promptly purchase a new one!

Such was the Highlanders' contempt for the law that it was not even considered a disgrace to be imprisoned for illicit distilling.

Indeed, in Dingwall Gaol offenders were treated in the mildest possible way, even allowed out on Sundays and special occasions and "honourably returned."

One prisoner even approached the governor with the remarkable proposition that they set up a still together in the gaol!

But out of this lawlessness came greatness. The illicit dram was magnificent.

The Reverend Thomas Guthrie was a boy in 1818 and he recalled that "everybody, with few exceptions, drank what was in reality illicit whisky – far superior to that made under the eye of the Excise – lords, lairds, members of Parliament and ministers of the gospel and everybody else."

And the finest dram of them all was The Glenlivet.

The Sassenach Connection.

The Glenlivet distillery was started by one John Gow. Alias Smith.

Bit of a mystery, John Gow. Indeed he had very little option.

Having fought and lost with Bonnie Prince Charlie, he had to flee with his family in 1746 to the remote glen of the river Livet.

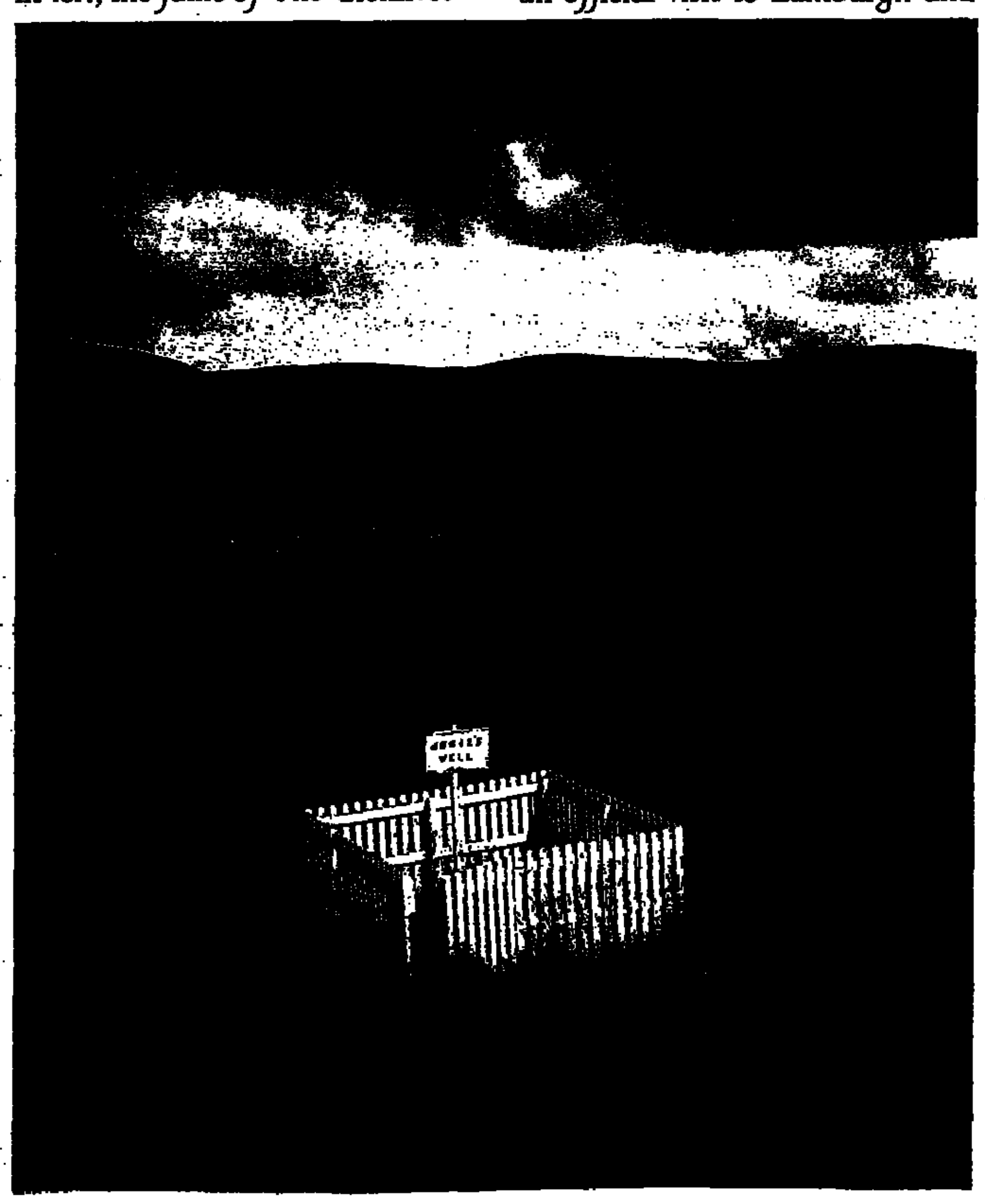
And to baffle the English soldiers, he changed his name from the gaelic Gow to Smith.

This is why such a Sassenach name as Smith appears on the bottle of Scotland's most venerated whisky.

There in the glen John Smith, ex-Gow, settled in the precise spot where the water and the peat were the best in all Scotland for making malt whisky. This mysterious man had stumbled upon a mysterious well. Josie's Well.

It's the water from this well that makes The Glenlivet magical. We can't tell you why. There is no explanation. And there is no other well that performs the same magic.

By the time John Smith's grandson George inherited the still in 1817, the fame of The Glenlivet had spread far and wide.



"It is worth all the wines of France" opined the Doctor in Sir Walter Scott's St. Ronan's Well, "and more cordial to the system besides."

His Majesty's Pleasure.

The Glenlivet that George Smith made even flowed in the corridors of power.

In 1822 King George IV paid an official visit to Edinburgh and Elizabeth Grant, an MP's daughter, wrote about it in her memoirs: "One incident connected with this time made me very cross: Lord Coryingham, the Chamberlain, was looking everywhere for the pure Glenlivet whisky: the King drank nothing else.

My father sent word to me – I was the cellarer – to empty my pet bin, where whisky was long in the wood, mild as milk and the true contraband goût in it."

Such a princely potion couldn't stay illegal much longer. It was unthinkable that the King should ever have to deny that his greatest pleasure didn't actually exist!

Luckily, back at the House of Lords, commonsense was about to break out, under the influence of George Smith's landlord, the Duke of Richmond and Gordon.

In 1823, their Lordships passed an act which made distilling a commercial proposition.

And the first man to take out a licence was our own George Smith.

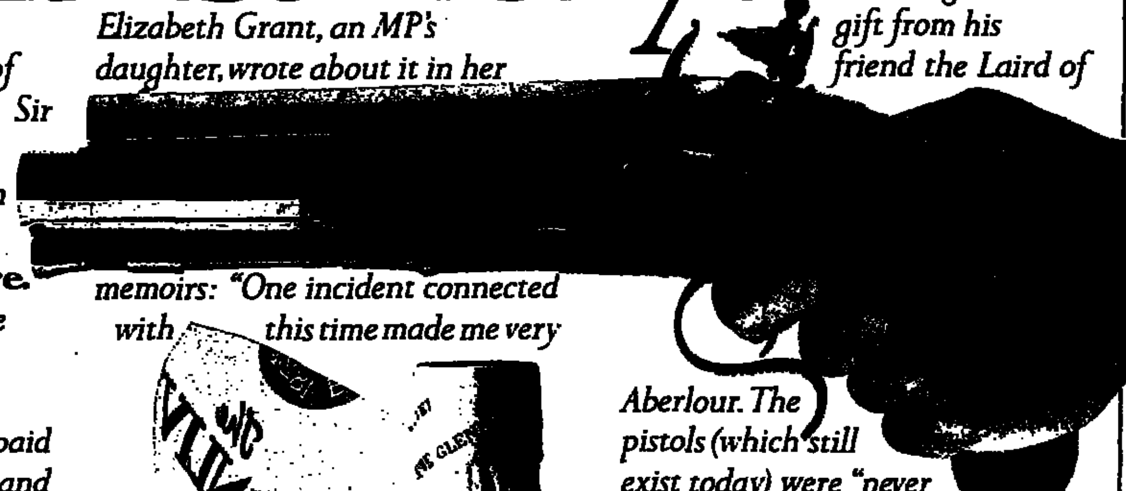
Plain sailing from then on you'd think. Nothing of the sort.

The neighbours' burning desire.

Although George had decided to go legal, his neighbours in the glen would have none of it. They regarded him as a traitor.

"The outlook was an ugly one," wrote George. "I was warned by my civil neighbours that they meant to burn the new distillery to the ground and me in the heart of it."

Such threats in the wild remoteness of Glenlivet were not idle. So for his protection, George was presented with a pair of hair trigger pistols, worth ten guineas, a gift from his friend the Laird of Aberlour. The pistols (which still exist today) were "never out of my belt for years.



I got together two or three stout fellows for servants and through watching by turns every night for years we contrived to save the distillery."

And with it, they saved The Glenlivet.

For which we must all be thankful.

For it truly is the benchmark for malt whisky.

The "Grandfather of Scotch."

Scotland's first malt whisky.

THE MANAGEMENT PAGE

Union Carbide

The ramifications of the Bhopal disaster

The group's Indian management is in limbo. John Elliott reports

TEN MONTHS after disaster struck in the Indian city of Bhopal when a gas leak from a Union Carbide pesticide plant immediately killed at least 2,000 people and injured tens of thousands more, the U.S.-owned company that ran the plant is operating in a state of limbo.

That limbo extends far beyond Bhopal, which in fact represents only a small part of the operations of Union Carbide in India Ltd (UCIL). For in addition to other chemicals and plastics plants, UCIL's major business is manufacturing batteries and torches.

The Indian Government has shunned UCIL, resulting in its delaying approval for new projects in these other areas of activity and blocking an interim dividend transfer to the U.S. UCIL has also been given the cold shoulder by some other companies, including one which has cancelled a $10m deal to buy one of its other plants.

Its pesticides site in Bhopal —where people are still dieing from the after-effects of the leak—has been closed by the government and it has not been allowed to start up any alternative operations there.

For V. P. Gokhale, 49, a quietly-spoken, London-trained engineer who became managing director of UCIL a year before the disaster, Bhopal has become his major preoccupation. "I spend six hours of my day on Bhopal work of some kind or other, talking to lawyers, cutting back the workforce, relief measures, meetings with the state government, talks with the central government on its compensation claim, reading the Press and, sometimes, talking to people such as yourself."

He rarely gives newspaper interviews and explains: "Generally we are lying low. Whatever we say is going to be wrong. Our immediate aim is to do the things that we can in Bhopal."

The management's job now in this 50-year-old beleaguered company is to protect existing investments, maintain staff morale at a time of little expansion, carry out what little relief and job creation work the Indian authorities will allow in Bhopal, and hope that an eventual settlement of the Indian Government's compensation claim against Union Carbide in the U.S. will clear the air.

V.P. Gokhale: trying to maintain morale

Gokhale says morale is high, even though the company has a "bad name." No senior executive has left the company, which has 9,000 employees in 14 manufacturing locations around India. But there were problems to begin with and various civil liberty and consumer groups have campaigned against its products.

"Morale was down last December. Employees had to face their neighbours who said: 'You're Union Carbide. You are killers'. People feared for their job security at our main plants away from Bhopal, so management teams went out to tell employees it was business as usual, that we were in a crisis, and that that's the time when we need the best out of our people.

"As far as business is concerned, there is no persecution as such, no overt moves to harrass us. But people are more watchful of Carbide than before," says Gokhale, who is still on bail having been arrested last December just after the leak, along with Warren Anderson, the U.S. chairman, and other executives.

Union Carbide came to India in 1905, as the National Carbon Company of Calcutta, selling batteries. In 1926 it started manufacture, as the Ever Ready Company, and batteries and torches now make up more than 60 per cent of its £140m a year sales.

Although a very small part of the worldwide Union Carbide empire, it is the largest U.S.-owned company in India (Union Carbide has 50.9 per cent of its equity) and its sales make it one of the largest 20 Indian companies.

Before the disaster it had a good image as a solid if not very adventurous company with its headquarters in one of Bombay's more unprepossessing office blocks. While admitting that too little corporate attention was paid to community affairs (there was no contact with people living around the Bhopal factory before the leak) Gokhale is proud of the company's social policy which included using its extensive sales network to distribute contraceptives for the Government's family planning campaign.

It also had a good industrial safety record at most of its factories, although, like many other chemical companies, it has now started planning for possible disasters for the first time. "We are asking 'what if' which we didn't do before," says Gokhale.

But it had been running into problems before last December's disaster, even though battery sales pushed pre-tax profits up from £9.2m in 1983 to £9.5m in 1984.

The Bhopal pesticides plant, first opened in 1969, has not been a financial success in the past few years and contributed only 6 per cent to the company's sales in 1984. It made what Gokhale describes as "significant losses," believed to have been as high as $3m to $4m a year on a $12m to $14m annual turnover in 1984 and 1985.

Competition with more modern imports and bad weather for agriculture hit sales, which fell to 23 per cent of installed capacity of 5,000 tonnes a year in 1984 from 30 per cent in 1983. This led to temporary shutdowns and low worker and management morale before the leak shut the plant permanently.

The company is also closing down a diversification started in 1973, commercially harvesting shrimps, and it is selling 13 trawlers. Gokhale says this potentially lucrative business, which has also defeated other large Indian companies, needs more of a "hands-on entrepreneurial" management style than his sort of company can provide.

Workers at Union Carbide's Bhopal plant protesting last April that it should be kept open. However, it remains closed

UCIL was also not doing well with its main chemicals and plastics subsidiary at Chembur, Bombay, which it arranged late in 1983 to sell for £7.5m (plus £6.8m for working capital) to Reliance Textiles, India's fastest growing company. The disposal of what amounted to 25 per cent of UCIL's sales fitted in with Union Carbide's global policy of moving out of polyethylene chemicals. But the sale was abandoned two months ago, after months of delays in obtaining government approvals.

Although neither company is commenting officially, it seems that Reliance was growing so quickly in other areas that it became less interested in the acquisition and also did not want its buoyant reputation potentially sullied with a UCIL legacy after Bhopal.

Gokhale says the planned sale was justified commercially because demand for the 25-year-old plant's business would have dried up in about five years when new gas-based crackers came into action. But now there is a polyethylene shortage in India so, making the best of its post-Bhopal situation, UCIL will cash in on higher prices now obtainable for the products. "We can do nothing else. There is no management time to plan for the time being," says Gokhale.

Adding to the problems, expansion plans are now being slowed down. A £10m venture into silicones for textile and rubber industries is stuck in government bureaucracy, which is showing no interest in issuing the necessary licences. A £1m helium speciality gases project is supposed to be going ahead, but UCIL has run into bureaucratic delays over essential licences for equipment imports and the location of the site.

It appears that the Government is ostracising UCIL, knowing it is backed by public opinion in India, partly because it would be politically embarrassed to be seen giving any new projects or accepting any favours from the company. Presumably it also does not want to prejudice possible legal action in the future.

"I feel that once a settlement (on the compensation) is reached, this cloud will blow over. But the longer it takes, the longer we are not helped in our business in India because until there is a settlement, nothing can happen. We are not now, for example, applying for new operations or industrial licences," says Gokhale.

So he and some of his headquarters colleagues are instead learning how to manage relief organisations and organise low skill jobs which UCIL is trying to set up in Bhopal. But even here there are problems because some of their offers have been turned down for political reasons, notably a proposal to establish a battery factory on the Bhopal pesticides site to employ 300 of the former 630 employees.

Most offers of help—medical equipment and life saving drugs, blankets and buildings for relief work, had been spurned, Keshub Mahindra, non-executive chairman of UCIL complained at the company's annual meeting last month.

But Gokhale's team is beginning to make some progress in Bhopal of which he is visibly proud, even though he quickly adds that it is "no big deal in the magnitude of the tragedy." He agrees with local government estimates that perhaps 15,000 or more people need occupational help because their ability to work has been impaired by the after-effects of the gas leak and he hopes UCIL can make a small start by organising employment for 500.

A Carbide employees-sponsored relief trust has been set up with about £30,000 from UCIL and £15,000 from employees. It has helped 120 people get low skilled work and its biggest success is stitching leather and cotton gloves for industrial and general use, initially for UCIL's other factories. Union Carbide in the U.S. has agreed to consider buying some and other companies in India are being approached.

About £220,000 is being offered to fund the first stage of an urban renewal project with a "community module" of 96 homes, work and community centres as a forerunner of what might happen in Bhopal when the expected millions of pounds of Union Carbide compensation flow in.

Gokhale says that, despite the presures, he can see no signs in Union Carbide of a "move to pack up and go" out of India. So while they wait for the possible settlement of the compensation claims, he and his colleagues are getting used to a type of public curiosity they would rather avoid.

"At a dinner or on an airline, as soon as I say I'm from UCIL, strangers develop a great interest in me for the rest of our time together. I dread airline flights these days," says Gokhale, a little more than half seriously.

Business Travel

IBIS Hotels, which visitors to France will know of as a chain of basic functional properties, has opened its first operation in the UK, at Heathrow. The chain hopes to have 40 operations in the UK within the decade. Single rooms at the Heathrow Ibis are £35 a night. "We cut out what we feel many executives do not want in the first place — room service and a swimming pool for example." The rooms do, however, have direct dial 'phones.

●

BUSINESS travellers can often take advantage of lower winter fares really aimed at the tourist market. This winter, for example, TWA has introduced a U.S. Rover ticket which, for £99 gives four coupons for use on flights serving 60 U.S. cities on TWA domestic routes. Further coupons can be bought for £25 each. Purchases must be made three weeks in advance.

●

WHAT WILL be the world's tallest hotel when it opens early next year, the 73-storey Westin Stamford in Singapore, is already proving popular with conventioners. The hotel is attached to the Raffles City Convention Centre.

●

A USEFUL series of small pocket maps for 10 popular business destinations has been produced by the Lunn Poly travel agency chain, as part of the current marketing battle for business customers. The palm-sized maps show key landmarks, post offices and other details of cities including Amsterdam and Brussels, Paris and New York. The maps are free from Lunn Poly business centres—see if you can get one and escape without also receiving a sales pitch.

●

HILTON International is to run a new 363-room hotel in Ankara, Turkey. The 18-storey property will open in late 1987 and is in the Kavaklidere area. Hilton already has a hotel in Istanbul.

●

A DAILY non-stop service between London and Houston is to be operated by Continental Airlines this winter. It had been thought that the service, introduced in April of this year, would be reduced during the winter months.

●

A £6m SCHEME to refurbish the Royal York hotel which adjoins York station is starting this month by Seaco, owners among other things of the Venice-Simplon Orient Express and the Cipriani Hotel in Venice. The aim is to make the hotel "one of the premier properties in Britain."

●

MAERSK Air, which runs the supplemental airline route between Southend and Billund in Denmark has linked with Hertz Rent-a-Car to provide business travellers with special car rental rates in Denmark. Cars will be available for Maersk passengers from £15 a day. Maersk is now also offering free small conference room facilities at Billund terminal.

●

THE GARDEN Hotel in Guangzhou (Canton) which is operated by the Peninsula Group, is now officially open. It has in fact been operating for nearly a year.

●

PEOPLE EXPRESS Airlines has started services from Newark airport non-stop to New Orleans and St. Louis. It has also opened a Denver-San Diego non-stop service with links from Denver to Newark. The Newark New Orleans fare is $59.

Arthur Sandles

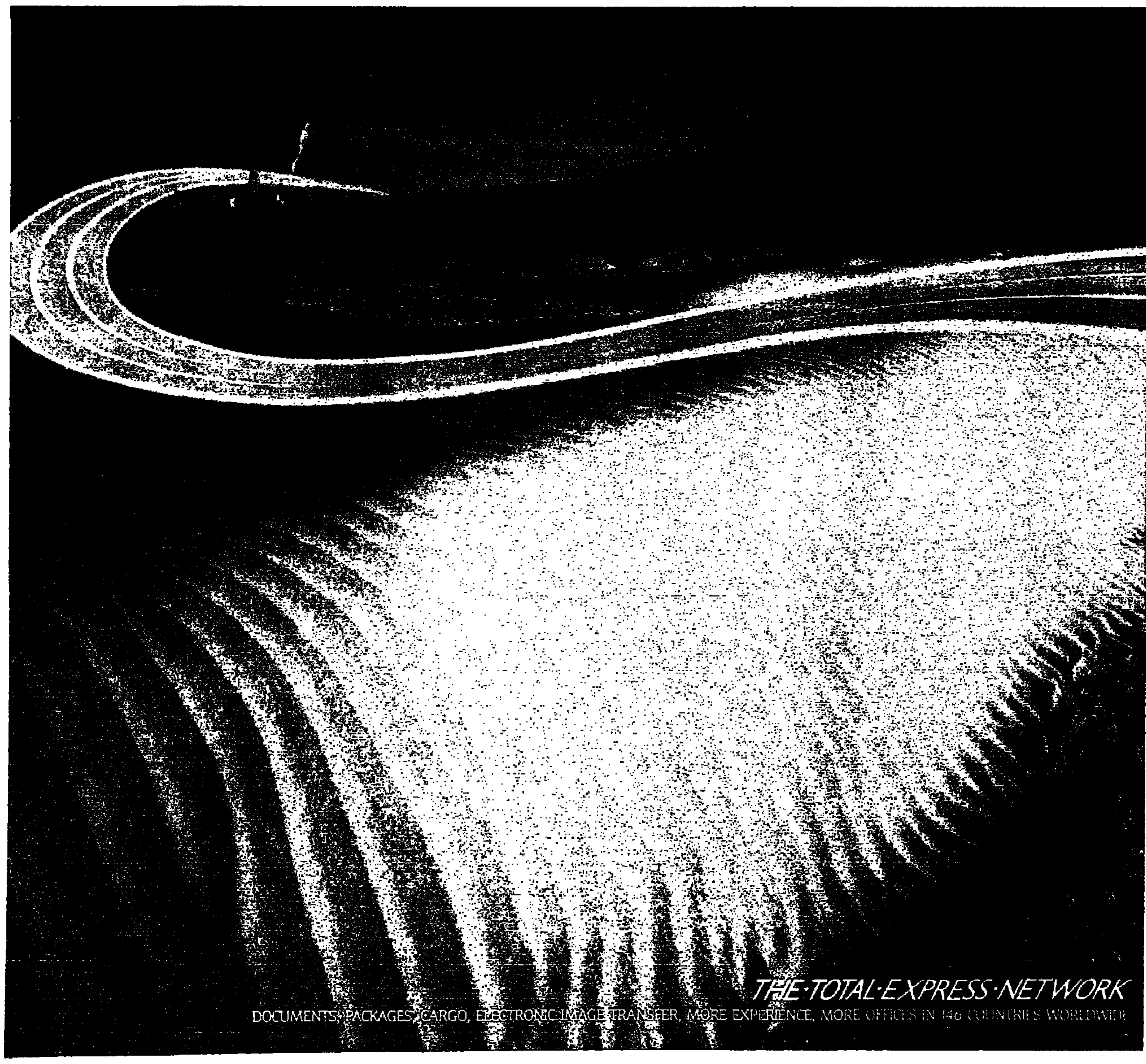
Business courses

The IBM PC, London. November 25-27. Fee: £690 plus 15 per cent VAT. Details from CGS Institute, Russell House, Russell Street, Windsor SL4 1HQ. Tel: 07535 58811.

Below-the-line and sponsoring: the use of promotion and sponsorship in the marketing mix, Milan. November 6-8. Fee: ESOMAR members SwFr 1,000; non-members SwFr 1,200. Details from ESOMAR Central Secretariat, JJ Viottastraat 29, 1071 JP Amsterdam, The Netherlands. Tel: (020) 64.21.41. Telex: 18535 ESMAR NL.

Marketing creativity, Brussels. November 4-8. Fee: non-members BFr 76,000; members AMA/I BFr 68,000. Details from the Registrar, Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11. Telex: 21.917.

Japan — competition or co-operation. Society for strategic and long range planning national conference and dinner, London. November 21-22. Fee: £201.25. Details from Society for Strategic and Long Range Planning, 15 Belgrave Square, London SW1X 8PU. Tel: 01-235 0246.



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to the holders of Debentures payable in American Currency of the issue designated

8½% Sinking Fund Debentures Series BW due November 15, 1986 (herein called "Debentures") of the

HYDRO-QUÉBEC

PUBLIC NOTICE IS HEREBY GIVEN that the Hydro-Québec intends to and will redeem for SINKING FUNDING PURPOSES on November 15, 1985 pursuant to the provisions of the Debentures, the following debentures as indicated, of the above-mentioned issue, at 100% of the principal amount plus accrued interest to the redemption date, namely:

Debentures bearing the Prefix BW:

11	783	1784	2411	3083	3626	4435	5075	5723	6391	6897	7677	8236	9520	10442	14543	15461	15943	16556	17019	17649	18602	20560
17	787	1791	2414	2991	3631	4438	5076	5725	6392	6906	7679	8297	9521	10449	14545	15463	15945	16562	17022	17652	18603	20602
25	819	1795	2416	3010	3637	4440	5191	5727	6393	6907	7683	8298	9522	10545	14548	15464	15948	16563	17023	17660	18647	20635
34	824	1804	2420	3036	3646	4443	5192	5738	6402	6908	7685	8299	9523	10547	14549	15467	15949	16567	17031	17667	18649	20652
40	828	1807	2423	3038	3649	4445	5196	5780	6404	6910	7686	8302	9526	10554	14553	15468	15962	16568	17032	17669	18650	20693
46	836	1810	2427	3041	3657	4448	5197	5788	6405	6934	7687	8303	9527	10555	14554	15469	15959	16571	17047	17681	18652	20703
49	865	1814	2434	3065	3663	4454	5198	5789	6406	6935	7688	8315	9528	10585	14556	15472	15960	16572	17048	17694	18673	20747
55	883	1820	2436	3067	3666	4458	5199	5790	6407	6936	7689	8317	9529	10586	14558	15480	15973	16585	17049	17695	18687	20752
61	902	1826	2441	3070	3668	4459	5202	5791	6422	6942	7762	8318	9538	10587	14561	15481	16006	16628	17053	17702	18868	20789
66	909	1831	2443	3074	3671	4465	5203	5794	6429	6948	7764	8320	9541	10654	14563	15494	16007	16629	17062	17703	18881	20803
69	914	1836	2462	3079	3673	4468	5204	5795	6425	6949	7766	8343	9544	10665	14565	15495	16015	16633	17063	17741	18883	20831
72	918	1841	2466	3081	3685	4470	5205	5803	6426	6952	7767	8344	9545	10812	14566	15496	16016	16634	17081	17742	18896	20852
83	922	1845	2470	3085	3689	4473	5206	5804	6433	7230	7768	8345	9548	10815	14568	15498	16038	16643	17095	17750	18899	20875
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671	1267	2312	2939	3564	4275	4919	5050	5318	6787	7625	8164	9173	10404	13957	15429	15909	16507	16979	17554	18453	20328	22952
684	1270	2317	2946	3570	4276	4920	5051	5321	6805	7345	8171	9174	10413	13962	15433	15911	16508	16987	17571	18454	20352	22975
703	1274	2344	2947	3574	4281	4922	5052	5322	6806	7354	8172	9175	10423	13963	15436	15912	16510	16988	17589	18470	20353	22995
707	1277	2350	2949	3576	4293	4926	5071	5324	6808	7355	8173	9248	10424	13966	15437	15913	16521	16991	17592	18493	20396	
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Debentures to be so redeemed, will become due and payable in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts in said United States of America, at the office of the Paying Agent, Bank of Montreal Trust Company in the Borough of Manhattan, City and State of New York, United States of America or at any of the offices of the following Paying Agents: Bank of Montreal (Main Office) in the City of Montreal, Canada, Bank of Montreal in London, England, S. G. Warburg & Co. Limited in London, England, Kredietbank N.V. in Brussels, Belgium, the main offices of Commerzbank Aktiengesellschaft and Westdeutsche Landesbank Girozentrale in Dusseldorf, Federal Republic of Germany, Commerzbank Aktiengesellschaft in Frankfurt, Federal Republic of Germany, Kredietbank S.A., Luxembourgeoise in Luxembourg, Grand Duchy of Luxembourg and Banque Francaise de Depots et de Titres, Paris, France, upon presentation and surrender of Debentures bearing the above numbers with all coupons maturing after November 15, 1985 attached.

From and after November 15, 1985, interest on the debentures to be so redeemed will cease and interest coupons maturing subsequent to that date will be void.

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Pierre Bolduc,
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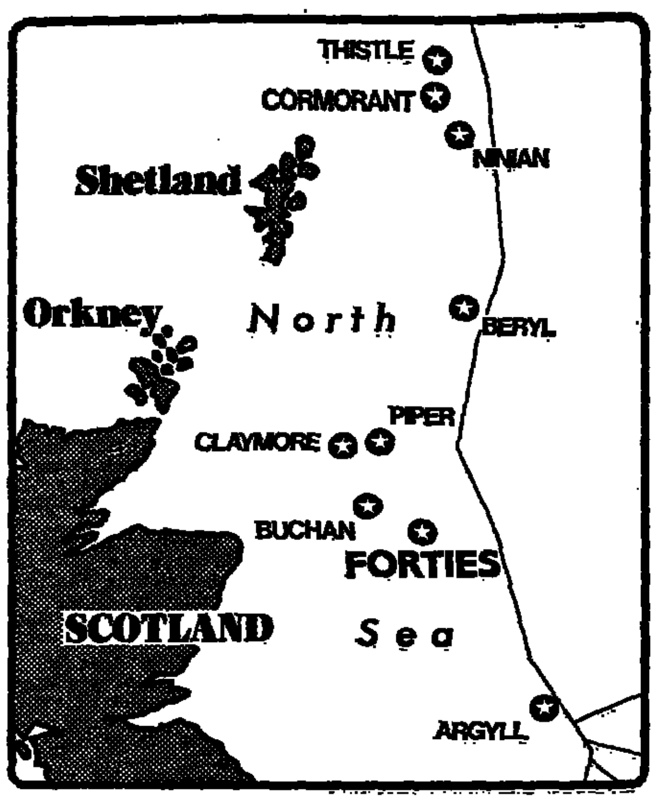
NORTH SEA OIL

Burnt fingers from the Forties

By Dominic Lawson



WHEN British Petroleum auctioned 12 per cent of its giant Forties Field in November 1983, the minnows of the North Sea thought they had stumbled on a crock of gold. Utilising new oil taxation laws in the 1983 Budget, the companies could use the 75 per cent petroleum revenue tax payable on their slice of the field's production to pay for their exploration programmes. As the rest of the oil would be untaxed, it seemed rather like discovering a small untaxed oilfield.

BP sold 47 0.25 per cent interests in the field at £7.5m each. To a buyer with no exploration experience the stakes might be worth only £4m, but to the most active explorers the interest would be worth about £12m. To justify the price paid the buyer of one 0.25 per cent unit needed a North Sea exploration programme of over £2m in each of the following two years.

That was the start of the problems. Many of the buyers did not have big enough exploration programmes to justify the purchase. One such company, Viva, was quickly taken over by Petrolex ,a larger company with more use for the production.

The Swedish company OK Exploration, in a separate deal with BP, spent £26m on a near 1.1 per cent stake in Forties, even though it had only two acres of North Sea property to call its own. Worse, the company borrowed to buy the stake, so its Forties production was being used not to fund exploration, of which there was hardly any, but to repay a loan.

OK is now seeking to sell its stake in Forties, and has had talks about this with two UK oil companies, Clyde and Premier.

But there is worse. Following a further auction in July 1984 by Occidental of 13 per cent of the Claymore field, the Department of Energy stepped in to prevent the development of a secondary market in North Sea oil production. Telling the North Sea industry that the Government strongly objected to the use of North Sea licences as a freely tradable asset, Energy Minister Mr Alick Buchanan-Smith declared in September 1984 that any future North Sea asset seller must demonstrate that it had made a positive contribution to the development of the asset it was proposing to sell.

Naturally, the Forties buyers' motive was the maximum tax benefits out of the field as possible, rather than spend money on more refined ways of developing the area. Those buyers which believed they could sell out of Forties if the original purchase proved ill-judged had burnt their fingers badly. OK Exploration now appears to be itself up for sale, as the only way in which its Swedish parent could sell its Forties stake seems to be by disposing of the entire North Sea holding company.

Some of the buyers with woefully inadequate exploration programmes thought that they could subsequently buy enough North Sea acreage to justify the earlier purchase. But this had the obvious effect of pushing up sharply the cost of North Sea exploration acreage. According to Mr David Roberts, finance director of Charterhouse Petroleum, some North Sea companies are paying such fancy prices for North Sea acreage that even if they found oil on the blocks they bought, they could still not justify the deal.

Most of the companies involved in this spiral are too small to be operators. So even if they have the exploration acres to justify the purchase of North Sea production in principle they are stymied if the operator of the properties want to move very slowly.

Yet a further blow to the Forties and Claymore purchasers came in the Budget, when the Government ruled that henceforth onshore exploration costs could no longer be offset against tax on North Sea production. After a great outcry from the oil independents the new ruling was suspended, but will come into force at the beginning of the next financial year.

For Floyd Oil, an oil company totally committed to UK onshore exploration and a purchaser of a Claymore unit, the Budget was a body-blow.

It looked like curtains for the amiable "Tod" Floyd, founder chairman of the company, and the North Sea takeover specialists began to move in. But Mr Floyd managed to persuade the Government that he was a special case, and the Department of Energy allowed him to "freely trade" his unwanted North Sea asset by sellin it to Sovereign Oil.

Others have been less fortunate. The tiny Third Triton Petroleum always appeared too small to justify its purchase last year of 0.5 per cent of the Claymore field, and it is now being put up for sale by its institutional shareholders.

In another rethink, Tarmac has sold its Plascom oil and gas subsidiary, complete with the recently acquired 0.25 per cent stake in Forties to the omnivorous Rio Tinto-Zinc. In another part of the North Sea, Dr Colin Phipps, chairman of Clyde Petroleum, has revealed that a number of Claymore and Forties unit holders are only too willing to sell their stakes to Clyde, if only the Government would agree to the transaction.

Trafalgar House, which bought into 1.5 per cent of the Forties Field in two separate deals, has no regrets, even though it has a very big onshore exploration programme. Says Mr John Williamson, chief executive of Trafalgar House Oil and Gas: "We are trying to build an oil company and you need cash flow to do that. But some other companies thought that they could explore with cheap money and hit a bonanza overnight. That's not how the oil business works."

So top marks to Mr Martin Lovegrove of stockbrokers James Capel, who wrote in November 1983: "In the fullness of time it may well be proved that in their scramble to justify their longer-term existence, some of the smaller exploration companies will have paid too much for their Forties units, in a few cases, substantially so."

*

The Islamic market has never quite recovered from the revolution in Iran and the fall in oil prices but demand is certainly better now than it was two years ago. On Wednesday Sotheby's sells works of art and carpets, while Christie's concentrates on carpets the following day. A pictorial carpet from Kirman, depicting all the kings of Persia up to the 20th century, carries the top estimate of £65,000, while two rare Kum Kapu prayer rugs should make around £30,000 each.

The event of the week in New York happens at the weekend when Sotheby's offers a complete set of engravings from Audubon's "The Birds of America." The plates will be auctioned in 435 seperate lots and should bring in around $1.2m for the benefit of the Municipal Archives of New York, who had bought the set in 1850 from the artist for $1,000. New York has six other complete "Birds of America" in its public collections.

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TECHNOLOGY

EDITED BY ALAN CANE

Design and Construct
Norwest Holst

Michael Strutt on a damning survey which suggests grave gaps in current training

Engineers lack knowledge of production processes and materials says report

ENGINEERING designers' knowledge of modern materials and production processes is "abysmal" according to a report based on research across four key engineering sectors.

The report, sponsored by the British Plastics Federation, the Production Engineering Research Association, Du Pont, and British Industrial Plastics is published today in Eureka, the technology transfer journal. It says that even design engineers fresh from higher education know little about the latest materials and are learning "on the job" about techniques which have been in use for 20 years or more.

The survey covered responses from 652 chief design engineers in four industrial sectors: automotive, mechanical, electrical/electronic, and instrumentation. They were asked about their knowledge of materials and processes in four component groups — casings, bearings, shaft gears, and electronic components — which are common to their industries.

As expected, there was a small swing from the use of traditional steels and cast irons towards thermoplastics. But more than half of the people questioned knew "little or nothing" about nylon, which has been available in various forms for more than a quarter of a century. Only 26 per cent knew enough about acetals and only 25 per cent enough about polycarbonates to consider specifying either material.

Most of the designers knew little or nothing about fluoropolymers (85 per cent), foamed plastics (87 per cent), polyamides (81 per cent) or polyester moulding compounds (72 per cent).

The report says designers' knowledge of production processes is equally poor. Among traditional processes, only 27 per cent of those who knew that sintering was relevant to their business were familiar enough with the process to consider it seriously.

"There is a need for a lot more training of engineers in the use of plastics in real applications"

Only 29 per cent were knowledgeable about injection moulding and 34 per cent about metal extrusion. Among newer processes, only 7 per cent knew about superplastic forming—in spite of wide publicity and its enormous industrial potential.

The move away from non-ferrous metals to thermoplastics was most marked in the production of instrument casings, being well exploited "by the knowledgeable few." And among electrical and electronic components there was a big swing (29 per cent) to thermoplastics for shafts and gears.

Mr Roger Bishop, Eureka's editor, said: "It was noticeable in all the areas surveyed, that young chief designers were *much less likely* to specify thermoplastics, thermosets and composites and the latest advanced materials than their older counterparts.

"Indeed, of the young designers specifying casings, for example, 11 per cent actually changed to cast iron and 17 per cent to non-ferrous metals, while a higher than average number changed from more modern materials." This reflected "the lack of materials literacy even among young designers with outstanding flair."

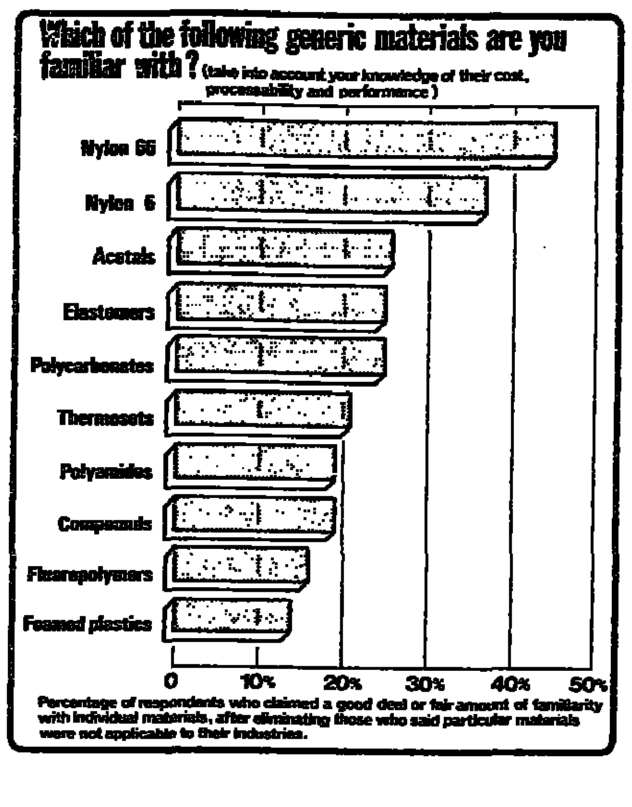
He added: "Engineers do need to make the effort, for a material which is slightly out of the ordinary, to understand its properties and possible uses.

"There is a need for a lot more training of engineers in the use of plastics in real applications to give them a solid background in plastics engineering."

The response to the postal survey, which included many large companies, was more than 60 per cent, the report says, "which itself shows the seriousness with which Britain's most senior product champions view their dilemma."

Experience—their own or someone else's—was the most important factor influencing those designers considering alternative materials, while the knowledge gained from their education was inadequate.

"Education leans towards materials science at the expense of applications engineering," the report concludes. "Universities lack the means to offer hand-on experience of new materials."



Percentage of respondents who claimed a good deal or fair amount of familiarity with individual materials, after eliminating those who said particular materials were not applicable to their industries.

The only real explanation for this "worying" trend, the survey suggests, is that since the mid-1970s the plastics sector has directed its marketing towards the trade moulder (its principal source of revenue), a reversal of its previous practice of promoting to product designers who specify the materials. Producers in other sectors, notably light alloy, continued to do this.

A remarkable subsidiary finding of the survey is that well over half the engineers who replied reported that changes had been made in the materials they specified without their prior approval, most often by purchasing departments.

The report says this interference—a problem never measured before—has serious implications for product quality and reliability "if tried and tested prototypes are being compromised once the product has left the design office."

"This will come as a shock to the design world at large who have the legal responsibility for the performance of their designs," it adds.

Th report urges further research in the area of faster-moving materials, particularly the use of surface coatings and thermoplastics in the design of casings.

Eureka's Material Survey. Full computer-analysed results, price £2,250; section analysis reports from £500. From Findlay Publications, Franks Hall, Horton Kirby, Kent DA4 9LL.

Boeing draws on its years of experience

The big U.S. company is not letting valuable expertise go to waste, reports Peter Marsh

YOUNG engineers working on the aeroplanes of the future at Boeing's design laboratories in Seattle can call on the expertise of one of the company's most experienced workers-locked in the memory of a computer.

Boeing Computer Services, the aerospace company's computing arm, has produced this so-called expert system using a set of rules about aircraft design culled from an unnamed employee who has been with Boeing for 40 years.

For months on end, computer worker talked to the worker to learn the details of how he goes about his job. These were put into the form of rules — of the sort "if x is true and y is true then condition z has an N per cent chance of being correct" — to become part of a segment of complex software that runs on a Xerox or Symbolics microcomputer.

According to Mr Robert Dryden, president of Boeing Computerf Services, the expert system does not so much solve engineers' problems as guide them to the correct approach.

For instance, a technical worker might have difficulty designing a particular wing component in a way that minimises the likelihood of wind-induced vibration once the aircraft is in the air.

In response to questions, the computer would come up with a series of proposals or hints as to the correct approach or simply come back with more questions which may help the designer find the answer.

Companies in many areas of examining how far expert systems can help them in areas such as diagnosing faults in manufacturing or advice systems in offices. DEC, the U.S. computer company, was one of the first organisations to use the equipment routinely to provide advice for workers assembling complex electronic equipment.

The 1,200-strong Boeing Computer Services has annual sales of $1.2bn, of which 60 per cent is generated through the supply of expertise and hardware to other parts of the $10bn-turnover Boeing corporation. For instance, the computing arm has provided a management system with which production engineers keep track of the 4.5m components that go into a Boeing-747 airliner as it travels through a production line.

The computer services division also built the world-wide communications network which links the company's plants and offices by telephone lines and satellites. With this system, for instance, engineers in Boeing's data centre in Vienna, Virginia, can transmit sofeware codes needed to operate machine tools and industrial robots to the main factories in Seattle.

The rest of Boeing Computer Service's income comes from sales to external customers. For example, the company is building a $210m computer network for the U.S. National Aeronautics and Space Administration.

To be completed next year, the system will connect the administration's seven main establishments, including the space-shuttle launch site at the Kennedy Space Center in Florida and the control room for manned space flights at the Johnson Space Center in Houston.

In other work, the computer division leases time on Boeing's Cray X-MP computer in Seattle to customers who require exeremely powerful processing for applications such as simulation of complicated events.

With the $16m Cray machine, one of the world's most advanced number-crunchers, a customer can perform in a couple of days an operation which would take a month on a DEC VAX machine(a powerful minicomputer in general use for scientific applications).

Among the customers are several British organisations which gain access to the Cray over a telecommunications link with Boeing's UK offices in Warrington, Watford or Coventry.

For instance, designers working at the National Nuclear Corporation (the British company that builds nuclear reactors) have obtained simulations of what could happen in a nuclear plant in the event of a pipe rupture.

The software used in this simulation (which depicts such situations in three dimensions and with high accuracy) is called Dyna 3D and was produced by the Lawrence Livermore Laboratory near San Francisco for use bythe U.S. Department of Energy.

Other British customers for the Cray include Rolls-Royce, which used the computer to work out in fine detail what happens if birds collide with an aircraft's jet engine while in flight, and various defence contractors who simulated the effects of shells hitting objects such as buildings or tanks.

Minerals companies such as Shell and Exxon have also used the Cray to obtain representations of production operations, for instance the pumping to the surface of oil from a deep reservoir.

UK warms to expert systems

EVIDENCE IS emerging that UK-based companies are buying and experimenting with expert systems (ESs) in a substantial way, confirming the claims of suppliers who have been reporting remarkable interest in these sophisticated computer programs.

About 35 per cent of a sample of 229 corporations surveyed by Pactel, the computer and communications consultancy, said they were either using, developing or experimenting with expert systems; 54 per cent of the sample said they were doing nothing.

But 75 per cent of the companies responding thought there was potential for expert systems to help their organisations, with the majority believing that ESs would be sufficiently advanced within five years to provide real value to their companies.

The Pactel study showed that only 5 per cent of respondents were actually using an ES within their organisations; 4 per cent were develing systems and 26 per cent evaluating and experimenting.

Administration was the most commonly mentioned use for an ES with marketing, research and development, design and maintenance also attracting support. ESs can be programmed with the "rules" of an administrative procedure so making it possible for them to be used to resolve questions of procedure and so on.

● Industry groups have been forming ES clubs to swop information and to help promote the technology. The Alvey Directorate, responsible for the UK's collaborative programme in advanced computing, already helps to fund such a club for the banking community. Next week, it is setting up a similar organisation for the insurance community, Aries (Alvey Research into Insurand Expert Systems).

Structureboard comes to Europe

Mark Meredith on a wood processing system now being used in Scotland

STRUCTUREBOARD production has come to Europe for the first time, bringing with it some of the latest technology in wood processing.

The board, well established in the U.S. and Canada where it is produced by about 30 mills, is cheaper than plywood and stronger than chipboard. Instead of using whole strips of wood for plywood or grinding trees into near splinters and glueing them together to make chipboard, structureboard forms a mat out of three or four-inch strands of wood bonded together. The strands keep the strength of the fibres, which makes the board ideal for building or concrete shuttering, crates and packing.

Highland Forest Products at Dalcross, east of Inverness, is now in full production aiming at a yearly output of 75,000 cubic metres of board. The new plant uses some of the latest techniques in structureboard production.

Pine logs from east Highland forests within a 50-mile radius are stripped of their bark on arrival and then cut up into thin strands. These strands are dried in large revolving ovens before being coated with wax and resin.

What gives this production technique the leading edge is the next stage—the "orientation" of the strands. Large combs lay the strands down roughly in line with the length of the board to form its outside layer. Then strands are laid across the width of the board to form the middle layer, followed by a final lengthways layer for the other outer side.

The mat of strands is then pressed and heated to bond together as a board using West German Wurtex and Siempelkamp equipment. The system enables varying thicknesses of board to be produced from 6mm to 25mm.

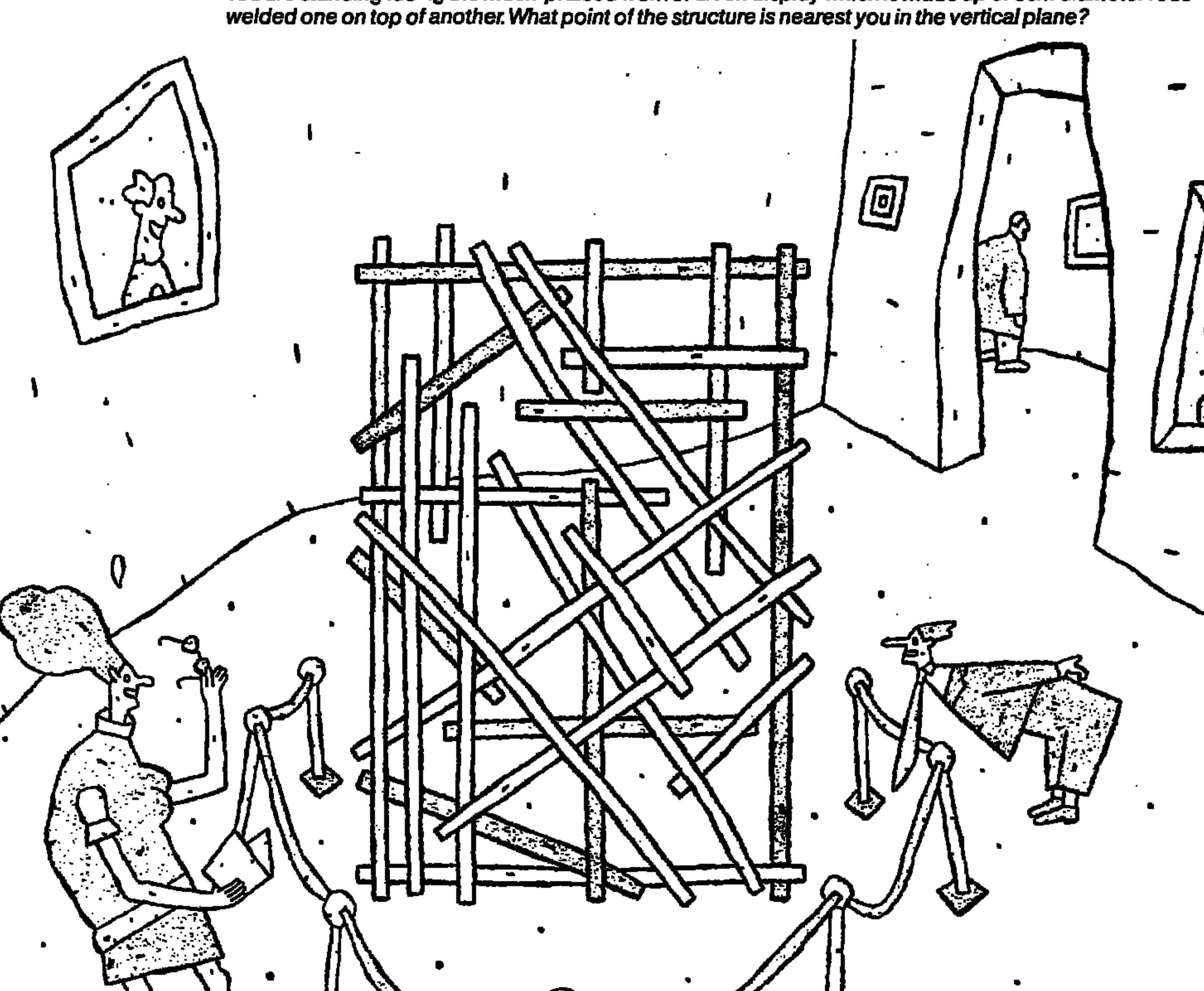
Laying the fibres in two directions gives the board added strength, while orientation gives it more useful properties than other types of structure board where the strands are laid down at random. Bark from the trees is dried and burned to supply energy for production.

The process also gives it the name of orientated strand board as part of the structureboard family. Structureboard is alos known as waferboard and Highland Forest Products markets its product under the name Stirlingboard. One of its disadvantages is its matted appearance which requires a veneer or plastic covering before application in areas like furniture.

The Scottish plant is ideally suited to the small soft roundwood available from the nearby forests, whose trees are usually too small for plywood production.

Mr John Godfrey, managing director of Highland Forest Products, hopes to make inroads into the 1m cubic metres of plywood which is imported into Britain each year.

You are standing facing the much-praised work of art on display which is made up of 3cm diameter rods welded one on top of another. What point of the structure is nearest you in the vertical plane?



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GENERAL SHOPPING S.A.

in liquidation

Société Holding Internationale pour le Commerce de Détail
8, Rue Zithe, Luxemburg

NOTICE IS HEREBY GIVEN that the

ANNUAL GENERAL MEETING

of General Shopping S.A. in liquidation will be held in the conference room of the Association des Banques et Banquiers Luxembourgeois, 23, Avenue Monterey (7th floor), Luxemburg, on 28th October 1985 at 11.00 a.m.

AGENDA

1. Report of the Board of Liquidators on the progress of the liquidation.
2. Miscellaneous.

In order to be entitled to attend the above General Meeting, the shareholders—according to Article 27 of the Articles of Incorporation—must deposit their share certificates at least five days prior to the Meeting (in this case on Monday, 21st October, at the latest) with the bank mentioned hereafter. Against deposit of share certificates, the following bank in the United Kingdom will then issue entrance cards for the Meeting:

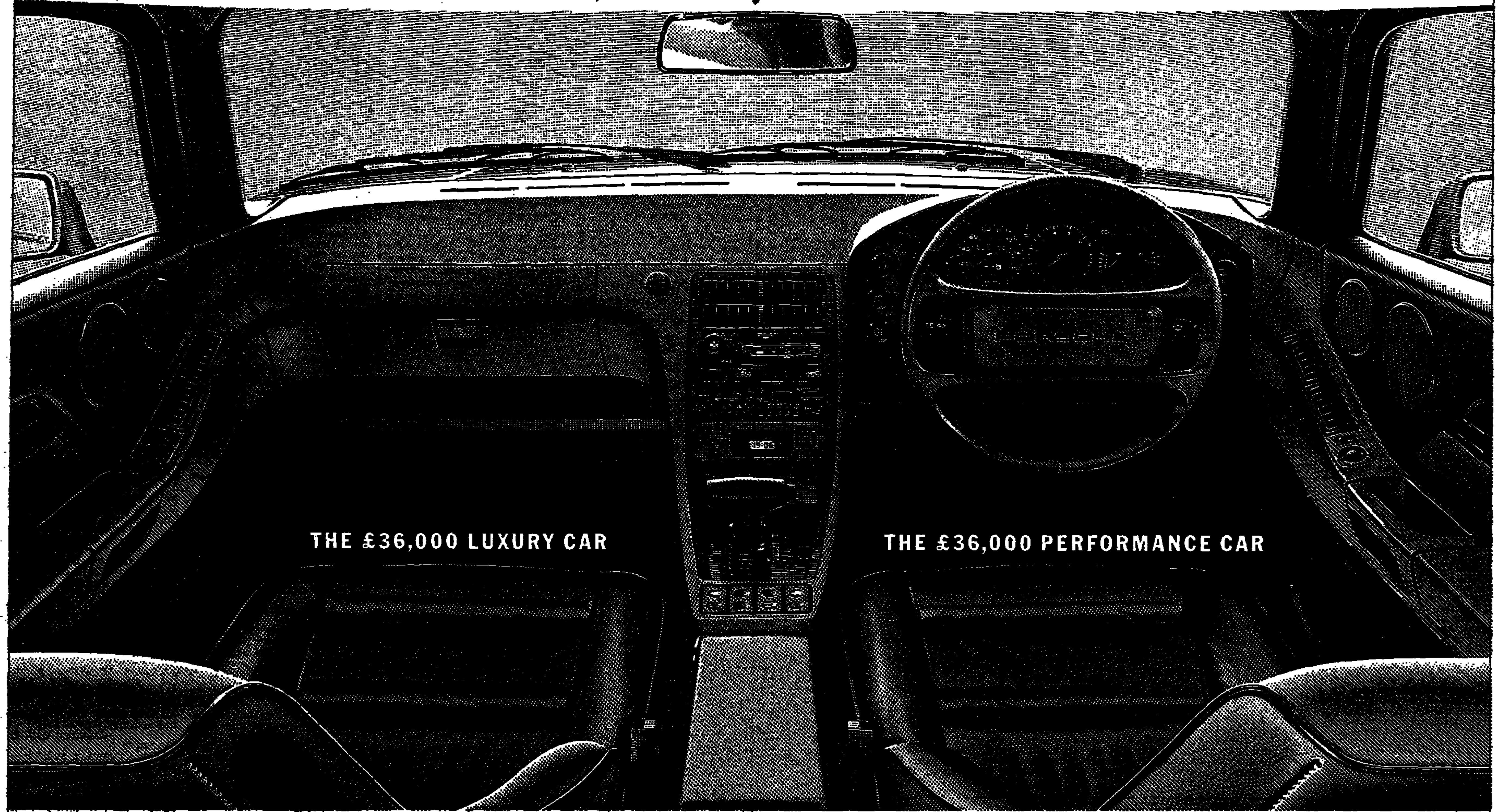
Williams & Glyn's Bank Ltd., London

as well as all other banks assuring the financial service for the company in other countries.

For the Board of Liquidators
W. WIRTH, Chairman

Luxemburg, 23rd September 1985

IT CAN ONLY BE ONE CAR.



There are two sides to every argument for the Porsche 928S Series 2. On the one hand, here is a luxury car of quite exceptional refinement. A car that's built by hand to Porsche's specification, then tailored to yours.

Front seats, for example, are electrically powered for height, reach and back adjustment. If you wish, they can be hide-upholstered in the colour of your choice.

To produce the perfect driving position, the steering column and instrument binnacle also adjust. In unison.

There is an ingenious climate control, with an electronic 'weather eye' that monitors outdoor conditions.

The slightest change, and air flow alters automatically to maintain your pre-set cockpit temperature. Even the glovebox is air-conditioned.

While for a total change of atmosphere, you only have to turn to the 928's computerised sound system. Fittingly, the ultimate in music for the ultimate in movement.

Steering is power-assisted and speed sensitive.

Headlamps can be hydraulically adjusted (from inside the car). Wing mirrors not only demist but can be re-positioned at the touch of a button.

There is a cruise control to take the footwork (and the hard work) out of long distance driving.

A fourteen-function safety warning system monitors everything from brake pad wear to tail lamp operation.

There's central locking. Including an anti-intruder button that allows you to secure all doors even when the car is in motion.

And should you think that Porsche proportions are totally impractical, some final words of comfort. Leg room to the front is more than generous; luggage room to the back verges on the cavernous.

Fold the rear seats and you have more stowage space than a luxury saloon.

On the performance side, the 928S Series 2 is astonishingly flexible. Smooth and imperturbable around town. Fast (never furious) on the open road.

With 4-speed automatic transmission, the 928 produces rather impressive Factory Test figures. 0-62.5mph (0-100km/h) in 6.7 seconds. Top speed: 156mph. The 5-speed manual is marginally swifter.

And as quickly as it starts, the 928 stops. It has one of the safest braking systems yet devised.

Second generation ABS cadence braking (allied to four piston, fixed caliper ventilated disc brakes) means that the 928 driver can stop rapidly and steer at the same time.

Handling is superbly controlled too, of course. Thanks firstly to the Transaxle driveline (engine fore, gearbox aft) which provides near-perfect weight distribution.

And secondly, to the Porsche-patented Weissach rear axle. An innovation which counteracts a car's natural tendency to break away on tight corners.

Fuel performance? 'Respectably economical' to quote 'Motor.'△

And the 928 brings other rewards. A 2-year mechanical warranty. The Porsche Longlife 10-year anti-corrosion warranty that's routine maintenance free. 12,000 mile service intervals.

928 SERIES

But, above all, pleasure: the sheer ease of driving a car that sets new standards in luxury performance technology.

As Car Magazine concluded, and the motoring press have universally acknowledged, 'this is one of the very best cars in the world.'△ And who are we to disagree? For a personal introduction to your nearest Official Porsche Centre and a comprehensive brochure on the Marque, simply send your business card to our Customer Relations Department.

PORSCHE
BUILDING ON ACHIEVEMENT

PORSCHE CARS GREAT BRITAIN LIMITED, BATH ROAD, CALCOT, READING RG3 7SE. TELEPHONE 0734 303666. 928S SERIES 2 AUTOMATIC DOE TEST: URBAN: 16.9MPG (16.7 L/100KM). 56MPH: 32.9MPG (8.6L/100KM). 75MPH: 26.9MPG (10.5L/100KM). 928S SERIES 2 PRICES START AT £35,523
△SOURCE: MANUFACTURER'S FIGURES. MOTOR DECEMBER 1983. CAR OCTOBER 1985. PRICES, CORRECT AT TIME OF GOING TO PRESS, EXCLUDE NUMBER PLATES.

Bryant
construction
New Building
Refurbishment
Infrastructure
021-704 5111
Solihull-Bracknell

CONSTRUCTION CONTRACTS

£15m orders for Balfour Beatty

BALFOUR BEATTY CONSTRUCTION, a BICC company, has been awarded contracts totalling £15m. Largest is a £9.10m order placed by the Property Services Agency for construction of a waste area support unit building at Aldermaston. This three-storey building will have a reinforced concrete frame and structural steel ramp. External works and mechanical and engineering insulation are included. The contract starts later this month with a 26-month construction period.

The Greater London Council has placed an order for £5m works at Thamesmead, to be carried out over a two-year period. This consists of roads, bridges, drainage and canals to be built in separate sites around Thamesmead, all as part of the basic development of the infrastructure of the new town.

Hertfordshire County Council has placed a £812,000 contract for repairs and partial reconstruction of two- and three-lane motorways on the A1(M) near Welwyn. The contract should be completed before the end of the year.

Sainsbury superstore at Oxford

BOWMER & KIRKLAND has secured £13.5m orders. Contracts awarded include: £4.8m superstore for J. Sainsbury at Oxford; £1.3m office development for Estates & General Investments at Aylesbury; £3.5m supermarket development for Arkwright Estates and fitting out for Argyll Stores at Hucknall, Nottingham; £460,000 conversion and refurbishment of a warehouse for an electronics company in Stevenage; £40,000 refurbishment of W. H. Smith's shop in Rotherham; and a £3.4m community hospital at Bolsover in Derbyshire for Trent Regional Health Authority.

*

CLUGSTON CONSTRUCTION, Scunthorpe, has won contracts worth £5m. Largest is a £1.5m office block for Conoco (UK), Viking Gas Terminal, at Mablethorpe.

In Saxilby, six miles from Lincoln, Clugston is to undertake the civil engineering works to a controlled washland on the River Till as the first part of the Lincoln flood alleviation scheme. Valued at £1.2m, the contract is programmed for two years, but Clugston expect completion in 18 months.

Other work includes a service reservoir at Mossley, Manchester, for North West Water, realign and improve King's Road, Cleethorpes for Humberside County Council, construct a sludge disposal scheme at Acomb, York, for the York Waterworks Company, and on the industrial side all civil engineering and building work associated to a biospecialities section at Selby for John & E. Sturge. Building contracts include an air combat simulator building at RAF Coningsby for the Property Services Agency.

Building factories at Crawley

Chichester-based OSBORNE has picked up an autumn bonanza of contracts amounting to £14m.

Largest is the £4.2m Phase II of Sussex Manor Business Park, Crawley, where four office and factory buildings comprising 141,160 sq ft of high tech specification are to be completed in 55 weeks. The development is by Royal Insurance with EPIC of Epsom.

As Basingstoke, Osborne has a £2.25m contract for the Equitable Life Assurance's Faraday centre in Basingstoke.

On the refurbishment side, the company has a £750,000 contract from British Telecom to convert a 20,000 sq ft unit on the Nursling industrial estate, Southampton, for the repair of telephones and office automation equipment in a clean environment.

Part of the total comprises civil engineering works, with the largest a £780,000 contract for part of the Honda factory at South Marston Airfield, Swindon for IDC Construction of Stratford upon Avon. Osborne has been awarded for the second year a £500,000 contract to maintain the runways and roads at Gatwick Airport.

More refurbishment in the City

WALLIS has secured contracts totalling over £13m including two refurbishments in Lombard Street, for Coutts & Co at No 15 and for The Scottish Provident Institution at Nos 1-6, which together are worth over £6.3m.

At Orbit House, Hangar Lane, a fast-track, design and build contract to fit out offices for IBM (£0.8m) will be completed in 15 weeks, while in Bromley, construction is underway of an industrial development for Rainbow Land (£0.7m), and in Epsom, building has started on a commercial development for the Scottish Mutual Assurance Society (£0.75m).

Work starts later this month on construction of a retail and commercial development in Queen Street, Cardiff (£0.8m), for Abbey Life Property Fund. Also in Cardiff, Wallis is building six factory units on the Colchester Industrial Estate (£0.6m). In Newport, Gwent, another industrial development of two advance factory units at Queensway Meadows (£1m) for the Welsh Development Agency is underway, together with refurbishment of the pedestrian areas as the first phase of the Cwmbran Town Centre redevelopment (£0.65m).

The property division has two residential developments under construction at Portskewett and Mathern, the first comprising 28 bungalows (£0.6m) and the second, 20 detached dwellings (£0.8m).

Newbury motorway services complex

TRY CONSTRUCTION, Uxbridge, has won contracts totalling over £10.6m. W. S. Try has started work on four projects with a total value of £7.21m, the largest being construction of a motorway services complex at Junction 13 on the M4 at Newbury on a management contract basis for Granada Services. The other contracts involve an administration and laboratory wing for the International Tin Research Institute at Brunel University; a first, nursery and middle school in Southall for the London Borough of Ealing; and a workshop facility at Park Royal for Slough Estates to be occupied by Renault Dodge. Try Build has obtained over £3.4m of smaller refurbishment and new work schemes including contracts for British Telecom, London Transport and the Home Office in London and the Home Counties. Further work for the Try Group has been gained under measured term and maintenance contracts from both government agency and local authority sources representing an additional £10m per annum turnover for the construction divisions.

FINANCIAL TIMES
STEVENAGE SURVEY
November 25, 1985
For further details, please contact:
ANDREW WOOD
on 01-248 5116
Financial Times
Europe's Business Newspaper

PARLIAMENTARY DIARY

This week in the Lords

TODAY
Transport Bill: Report (first day).

TOMORROW
Oil and Pipelines Bill: Report. Law Reform (Miscellaneous Provisions) (Scotland) Bill: Report.

WEDNESDAY AND THURSDAY
Transport Bill: Report. Bankruptcy (Scotland) Bill: Consideration of Commons amendments.

FRIDAY
House may sit to conclude report stage of Transport Bill if necessary.

FINANCIAL DIARY FOR THE WEEK

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
AGB Research, International Press Centre, 76, Shoe Lane, EC, 12.00
Mid Wynd Intnl. Inv. Tst., City House, 16, Overgate Street, Dundee, 10.30
Stirling Group, Stakehill Lane, Bentley Avenue, Middleton, Manchester, 12.00
Wyndham Group, Wyndham House, 9, St Andrews Crescent, Cardiff, 12.00

BOARD MEETINGS—
Finals:
Atwoods
Boulton (William)
Bryant Hides
Cradley Print
Glaxo
Medminster
Television South West
Interims:
Ash and Lacy
Barham
Edinburgh Inv Tst
Hammerson Prop Inv and Dev
Honda Motor
Mowlem (John)
Rockware
Senior Eng
UEI

DIVIDEND & INTEREST PAYMENTS—
AAH Holdgs 4.1261p
Argyll Group 4.15p
Bauluck Intnl 4p
Bryant (Derek) Group 2.7p
Clark (Matthew) 9p
Conder Group 0.75p
Cook (William) 1.65p
Dale Electric Intnl 3p
Eldridge, Pope 6¼pcIrrdUnsLn 3⅛pc. Do. 7½pcIrrdUnsLn 3¾pc
Greggs 1.65p
Ladies Pride 0.5p
Magnolia Group 0.75p
Microvitec 0.5p
Nationwide Bldg Soc 11pc (14/10/85) £5.606
Real Time Control 2p
Reed Executive 2p
Slough Estates 2.2p
Vibroplant 5.7p
Wyndham Group 1.5p

[illegible]

Duport
Farnell Elecs
Fogarty
Hawker Siddeley
Helene of London
House of Leroco
Marshalls Universal
Spirax-Sarco Eng
Sun Life Assurance Soc
Utd Parcels

DIVIDEND & INTEREST PAYMENTS—
Abercom Group 6cts
Armitage Bros. 30p
Bremner 0.5p
Calcutta Elect. Supply Cpn. Ru1.5. Do. 7½pcCumPf Ru0.0375
Canadian Pacific Ents. 20cts
Co-ban Eurofinance Gtd. Fltg. Rate Nts. 1991 $239.87
Collins (William) 4.75p. A (N-vtg) 4.75p
Edinburgh Financial Tst. 0.3p
F. and C. Eurotrust 1.7p
Howard Shuttering 0.7p
Nat West Bank Fltg. Rate Cap. Nts. 1994 $47.66
Sekers Intnl. 1.4p
Steetley 5p. Do. 4½pcCumPf 1.575p
Swansea (City of) 13¼pcRed 2006 6⅝pc
Trade Promotion Services Group 2.75p

THURSDAY OCTOBER 17

COMPANY MEETINGS—
Framlington Group, 3, London Wall Buildings, London Wall, EC, 12.00
London and Gartmore Inv. Tst., 2, St. Mary Axe, EC, 12.00
Newmark (Louis), 143-149, Great Portland Street, W, 12.00
Oceana Cons., Park House, 16, Finsbury Circus, EC, 12.00
Saville Gordon, Midland Hotel, New Street, Birmingham, 12.00
Telefusion, Connaught Rooms, Great Queen Street, WC, 10.30

BOARD MEETINGS—
Finals:
Abaco Invs
Audio Fidelity
Blue Bird Confectionery
Fisher (Albert)
Free State Geduld Mines
Highland Elecs

[illegible]

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

October 17-27
Motorfair '85 (01-439 0875) Earls Court

October 21-25
International Business Show (01-405 6233) NEC, Birmingham

October 22-24
International Products, Services and Technology for Financial Houses — BANKING (021-705 6707) Barbican Centre

October 25-November 3
International Bike Show (01-385 1200) NEC, Birmingham

October 29-November 1
Home Interiors Exhibition—London (01-385 1200) Olympia

October 29-31
Cleaning and Maintenance Exhibition — EUROPACLEAN (0923 777000) Barbican Centre

November 3-6
International Video and Communications Exhibition — IVAC (01-240 1871) Alexandra Pavilion, London

November 5-7
Cellular Communications International Conference and Exhibition (01-868 4466) Wembley Conference Centre

November 5-7
National Exhibition and Conference to Develop Profitable Exports (01-727 1929) Barbican Centre

November 5-8
Accountants' Exhibition (01-895 8003) Barbican Centre

November 10-14
International Furniture Show (021-780 4171) NEC, Birmingham

OVERSEAS TRADE FAIRS

October 16-19
International Industrial Electronics and Electro Techniques Trade Fair (01-977 4551) Vienna

October 17-18
European Marine Trade Exhibition—EMTEC (0202 687070) Hamburg

October 18-27
The 1985 International Capital Goods Trade Fair (Cleveland (216) 676 6000) Cleveland, Ohio

October 20-24
International Videocommunication Market Exhibition—VIDCOM (01-499 2317) Cannes

October 29-31
International Videotex Conference and Exhibition—VIDEOTEX (01-868 4466) Amsterdam

October 29-31
International Clothing Textiles Trade Fair—INTERSTOFF (01-734 0543) Frankfurt

November 3-7
Petrochemicals, Chemical and Plastic Industries Exhibition and Conference — PETCHEMPLAST (01-486 3741) Al-Khobar

November 5-8
International Fair of Hydraulics, Pneumatics, Industrial Robots and Automation — AUTOMAT ASIA (01-683 1158) Singapore

November 12-16
Maritime Trade Fair — EUROPORT (01-437 3175) Amsterdam

November 10-14
Arab Home Furnishing and Consumer Goods Show (01-486 1951) Bahrain

BUSINESS CONFERENCES

October 14-15
Euromoney Conferences: Export Finance (01-236 3288) Grosvenor House Hotel

October 15
Chatham House: Japan and the Pacific economy — can Europe find a role? (01-930 2233) London University, WC1

October 16-17
FT Conference: Fourth retail banking conference—the economies of financial services (01-621 1355) Inter Continental Hotel, W1

October 16-18
Risk Research Group: Solvency assessment (01-236 2175) Waldorf Hotel, WC2

October 21-22
FT Conference: Electronic financial services (01-621 1355) Hotel Inter-Continental, W1

October 23-25
International Economic Relations: Opportunities for West European companies in trade with Czechoslovakia and Hungary (03 955 4854) Prague

October 24
Institute of Directors: How to increase your sales (01-839 1233) 116, Pall Mall, SW1

October 24-25
International Herald Tribune: Oil and money in the eighties (01-242 1242) Royal Garden Hotel, W8

October 29-31
SUBTECH '85 "Designing for Intervention" (01-222 8658) Aberdeen Exhibition and Conference Centre

October 30
RIBA: Options in retirement housing (01-580 5533) 66 Portland Place, W1

October 30-31
FT Conference: The third professional personal computer conference (01-621 1355) Inter Continental Hotel, W1

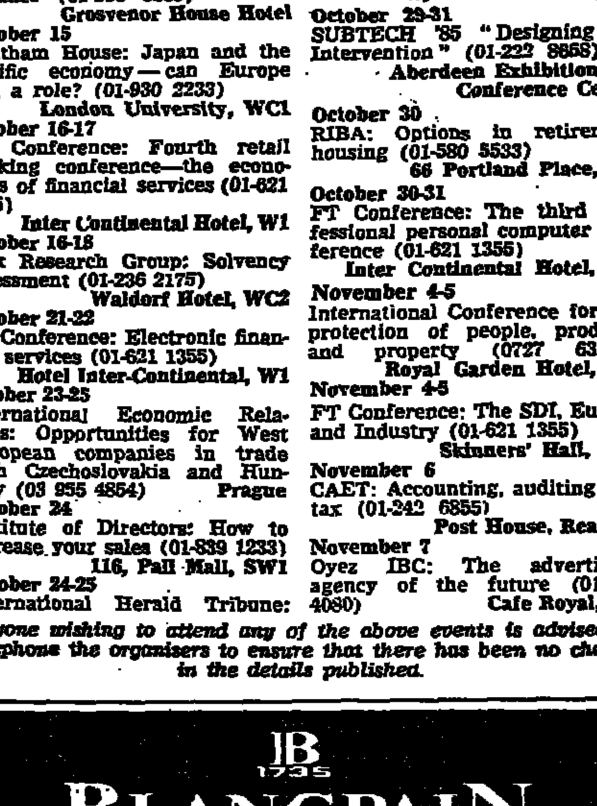
November 4-5
International Conference for the protection of people, products and property (0727 63213) Royal Garden Hotel, W8

November 4-5
FT Conference: The SDI, Eureka and Industry (01-621 1355) Skinners' Hall, EC4

November 6
CAET: Accounting, auditing and tax (01-242 6855) Post House, Reading

November 7
Oyez IBC: The advertising agency of the future (01-236 4080) Cafe Royal, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.



BLANCPAIN
A masterpiece of Swiss watchmaking.
Watches of Switzerland Ltd
HOROLOGISTS

Contracts and Tenders

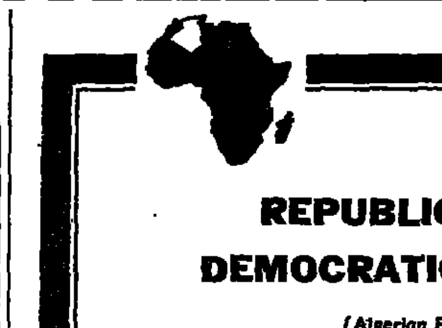
SYRIAN ARAB REPUBLIC

OVERSEAS CALL FOR TENDERS
No. 1858/8 FOR THE SECOND TIME
THE GENERAL ORGANISATION FOR THE EXPLOITATION AND DEVELOPMENT OF THE EUPHRATES BASIN (GOEDEB) RAQQA, SYRIA
REQUIRES THE SUPPLY OF LABORATORY TOOLS AND INSTRUMENTS

Technical Specifications and Special Conditions as follows:

[illegible]

Director General
DR. ENG. ABDO KASEM
COEDEB RAQQA, SYRIA



REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

(Algerian Popular Democratic Republic)
MINISTRY FOR HIGHER EDUCATION
(Ministere de l'Enseignement Superieur)
DIRECTION DE L'ADMINISTRATION DES MOYENS DES MATERIELS ET FINANCIERS
(Ministry for the Administration of Resources, Equipment and Finance)
SUB-DIRECTORATE FOR EQUIPMENT BUDGET
NATIONAL AND INTERNATIONAL INVITATION TO TENDER
No. 1/85 "S.D.B.E." OF No./S.621.2.262.012.01

An open National and International Invitation to Tender is being launched for the acquisition of various items for equipment of the University Library of the U.S.T.H.B. Specifications can be obtained from the "Siège (office) du Ministère de l'Enseignement Supérieur - Direction de l'Administration des Moyens des Matériels et Financiers - S/Direction du Budget d'Equipment, 1 Rue Bachir ATTAR, Place du 1er Mai, ALGER [ALGIERS].

Tenders accompanied by the relevant documentation should be sent in a double sealed envelope to the above address.

The outside of the envelope, which should not bear any mark that might identify the tenderer, should be addressed to the Ministère de l'Enseignement Supérieur, and include the following heading "A.O.N.I. No 1/85 SDBE - Equipement de la Bibliothèque Universitaire de l'U.S.T.H.B. soumission à ne pas ouvrir [proposal, not to be opened].

The final date for receipt of tenders is fixed at (45) forty-five days from the first publication of this notice in the national press.

Tenderers are reminded that all tenders must be accompanied by company and fiscal documents as indicated in circular No. 21 D.G.C.I. - D.M.P. of the Ministry of Trade [Ministère du Commerce].

Tenderers shall be bound by their proposals for a period of one hundred and twenty days (120) with effect from the closing date of this notice.

INVITATION FOR BIDS

1) The Republic of Turkey has received a loan from the International Bank for Reconstruction and Development (IBRD) in various currencies towards the cost of the third ports project and it is intended that part of the proceeds of this loan will be applied to eligible payments under the contracts for which this invitation to bid is issued.

2) The Turkish state railways (Turkiye Cumhuriyeti Devlet Demir Yollari Isletmesi Genel Mudurlugu—TCDD) now invites bids for the supply of:
— 9 pieces of standard container gantry crane
— 3 pieces of lightweight container gantry crane
— 27 pieces of rubber tired mobile container stacking yard gantry crane
— 1,620 metres of crane rails
— Crane rail fastening device

3) This bid invitation is only open for the suppliers from member countries of the IBRD and Switzerland and Taiwan, China.

4) All bids must be accompanied by a security of 20 per cent of the total value of the bid.

5) Tender documents pertaining to each of the above inquiry may be purchased against remittance of U.S.$200 each for the cranes and U.S.$100 each for the crane rails and fastening devices from the following address as from October 21, 1985 and the bids shall be submitted until December 20, 1985 15.00 hours at the latest.

TCDD Isletmesi Genel Mudurlugu
Malzeme Dairesi Baskanligi
Gar-Ankara/Turkey

Company Notices

CAISSE NATIONALE DES TELECOMMUNICATIONS
FLOATING RATE NOTES ISSUE OF U.S.$300,000,000 1985-2000

For the period of one month, from October 9 1985 to November 12 1985 (34 days) the notes will bear interest at the rate of 8⅛ per cent per annum.

The payable interest due November 12, 1985 for each nominal note of U.S.$10,000 will be U.S.$77.33.

THE THARSIS PUBLIC LIMITED COMPANY

[illegible]

By Order of the Board

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THE ARTS

Architecture

Colin Amery

An adventure in Harvard

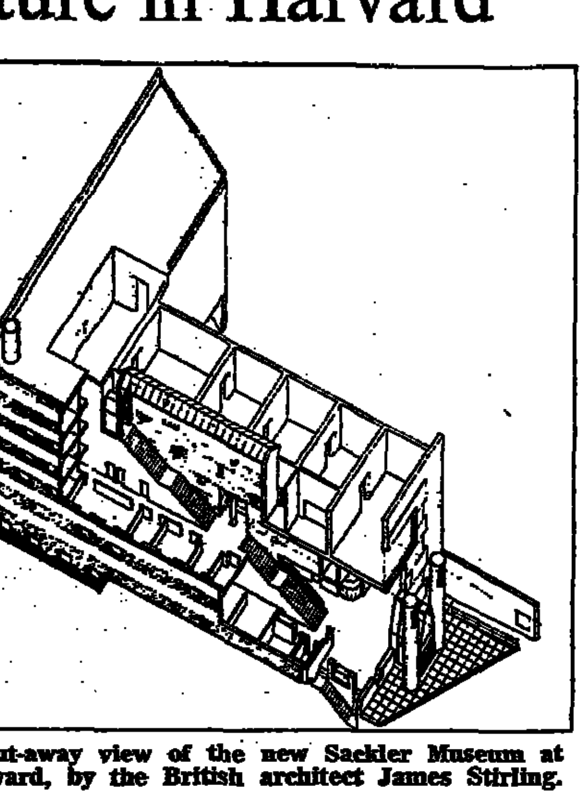
Celebrations are being held at Harvard University this week to mark the opening of an important museum. There is cause to celebrate on the architectural front too. The new building is the work of the British architect James Stirling, famous already for the much-admired extension to the Staatsgalerie in Stuttgart, and shortly to have his galleries for the Turner Collection at the Tate Gallery unveiled. *Last week* he was also named as one of the six shortlisted architects who are preparing designs for the extension of the London National Gallery.

Harvard has always been fortunate in its benefactors and sometimes in its architects. The campus is an architecturally mixed bag and the Stirling building joins a row of university premises by architects as varied as Coolidge, Shepley, Bulfinch and Abbot (the present Fogg Museum) and Le Corbusier (the Carpenter Centre).

The benefactor — the museum will bear his name — is Dr Arthur M. Sackler, a collector, publisher and research physicist. His museum will join the Fogg and the Busch-Reisinger as the third of Harvard's museums and will be used principally to house the university's collections of ancient, oriental and Islamic art.

It will be a teching museum. The philosophy at Harvard is that students of the history of art learn "by contagion." Works of art are constantly on display and seen daily on the way to classrooms or lectures. The architect has understood and interpreted the privacy of the collections brilliantly. Although they are seen in public galleries, the scale is small, and the association between the public and the work of art is intimate. The faintly exotic appearance of the public spaces, particularly the main stair, gives the visitor a sense of penetrating a special world.

The museum is a complex and ingenious new building that forces any visitor to contemplate present architectural dilemmas. It occupies an L-shaped site across Broadway from the present Fogg Museum; the main entrance between two columns or pylons is sited where there might in future be a link bridging the street and joining the new Sackler Museum to the Fogg. This is a strange facade, looking like a face gazing across at Harvard with a curious look in its eye implying something sphinx-like about the whole museum.



A cut-away view of the new Sackler Museum at Harvard, by the British architect James Stirling.

As the drawing above shows, the architect has solved difficult spatial and use problems in an elementary but sensible way. He places the teaching room in a band around the street side of the museum and places a monumental stair at the centre. The galleries occupy a separate realm. On the street facade the random pattern of windows and the striped brick are banal — it is the interior that counts.

You step down into the entrance hall which makes it seem even taller and more monumental. The shape of the entrance suggests the way into an ancient tomb and ahead rises a narrow, top-lit stairway that leads to the topmost gallery and the classrooms. Marking, as it does the divide between the public and the private rooms, the stair has the air of a narrow part of a casbah. Some Roman and Coptic reliefs are set into the high walls of the stair, giving the museum a sense of the antique even before the exhibits have been glimpsed.

There is a controversial note struck on the stairs: it is the architect's colour scheme. He has painted the walls of the stairway in mauve and cream, displaying his perverse lack of colour sense (he persistently uses vivid green paint wherever possible in many of his buildings). Fortunately the main galleries are finished in simple rough plaster, usually cream with solid oak floors and timber surrounds to openings.

The galleries are immensely successful. They are varied in size, well-proportioned and free of almost all of wilful jokes. The circular holes cut into the skirtings are an aberration that spoils some of the smaller rooms. The top-lit rooms are very pleasing — light is baffled in a complex way that is successfully handled by the ceiling shapes and the architectural feel of the rooms. There is a lecture theatre that has a catacomb-like quality.

This museum is, in spite of certain criticisms, an important and inventive architectural creation. James Stirling has made a powerful and evocative place. His architecture balances between the awful and the sublime. At the Sacker Museum he keeps the balance on the interior: the result is highly *original — as galleries* the spaces are an advance on Stuttgart and the whole place in an oblique architectural adventure. Visiting it is like eating a rich and strange meal; it keeps you thinking long afterwards.

Il Trovatore/Covent Garden

Rodney Milnes

The Royal Opera's 276th performance of Verdi's blood-curdling *melodrama* on Saturday cheerfully gave the lie to the tiresome old saw *about it needing only the four* best singers in the world, since the most consistently satisfying aspect of the evening was the conducting of Giuseppe Patanè and the sterling contributions he inspired from an alert orchestra and a chorus maintaining its excellent current form from the leadership of Peter Burian. Nothing was left to chance, and there was no whiff of routine: effects were precisely calculated without, however, appearing to be—the secret of middle-period Verdi and one understood by all too few. This was most distinguished music-making.

Sig Patanè's fresh yet mature approach rubbed off on at least one member of his cast, Elizabeth Connell (Leonora). It was characteristically bold of her to present her new credentials as a dramatic soprano to London in one of the most demanding of all roles in that repertory, and if she scored less than a total success, there was still much in her interpretation to admire. First and foremost she sang the words as if they meant something (which they do) and shaped even the most routine phrase of recitative with musical and dramatic insight. Much of the role was quite rightly sung in a gente mezza voce, eloquently coloured, and Leonora's vulnerability was throughout touchingly conveyed.

So far so good, but on this *evidence it would be idle to* pretend that Miss Connell had entirely settled into her new range. While passages requiring technical agility were voiced with impressive precision, just where the tone should expand at the top in legato phrases it tended to contract into brittle whiteness; whether this, together with some uneasy moments of sour pitching, was caused by the auspiciousness of the occasion (as I am sure some hastily snatched cadenzas were) remains to be seen. But the fact that she struck her best form in the fourth-act scena indicates that all may be well after a performance or two: it is after all seldom that any Leonora's best moments come in "Tu vedrai" and "Vivra!" The vocal equipment is certainly there.

In his house debut, Wolfgang Brendel (Luna) sang with much beauty of tone and impeccable musicianship, in the face of which it might sound ungrateful to ask for a touch more bold italianità, a drop or two of Mediterranean oil applied to the phrasing. But what a marvellous Mandryka and Wolfram Mr Brendel must be. Willard White (Ferrando) was in superb voice and matched Miss Connell in clarity and point of verbal projection.

On more familiar ground, José Carreras's relentlessly stentorian Manrico and Elena Obraztsova's vocally tattered Azucena were much liked by the audience, but not by me. Mr Carreras, especially, is capable of far better than this: it is little short of tragic that so lovely a voice should be squandered on inexpressive *can belto.*

Spend, Spend, Spend

Antony Thorncroft

This is the story of Vivian Nicholson who, through the agency of a Littlewoods cheque for £152,000, was transformed from a sluttish mother of four whose stole mashed potato to feed her family into a sluttish mother of four who drenched herself in champagne and Chevrolets. It began life as an autobiography, was transformed by Jack Rosenthal into a TV play, and has now been arranged for the stage by Claire Luckham and Chris Bond and is presently on at the New Half Moon in Mile End.

Viv Nicholson became in 1961 the most famous pools winner ever because she was outrageous to begin with and was prepared to go completely over the top to satisfy the sensation-seeking media. So there were the drinking sprees, the car crashes, the abortion, the five husbands, the flirt with the psychic. Pools winning husband Keith played his part in the drama by being smashed out of his mind, and body, in his own car crash.

Inevitably it becomes a one-woman show and Victoria Hardcastle as Viv is relentlessly powerful as the victim of her own passions and greeds. Fortunately there is no symbolism, moralising, or social interpretation in this production: just the inevitable downfall of a girl from a brutalised home in Castleford whose basic style changed little after the win—the drinks became more expensive, the parties louder, the inability to control her life more pronounced. The set makes the point—covered with cheap rubbish in the first half, with expensive rubbish after the interval.

To push home the points there is a wealth of songs, mainly of the period but with more appropriate words, played by a lively band in the balcony. Most of the cast grab any role going, with Keith, the only man strong enough to master Viv, well played by Neil Pearson, cool and composed against his wife's flamboyance.

Generous cutting of the social realism in Viv's early years would make this a punchier show but when you take away the noisy packaging of the story there is really little remaining. *Spend, Spend, Spend* is as biting an indictment of the spiritual poverty of the poor as of the rich and, in its boisterous escapism, offers excuses for everybody and nobody.

IRCAM concerts/St. John's, Smith Square

Dominic Gill

Ten years ago Pierre Boulez's IRCAM opened its underground doors beneath the Place Beaubourg in Paris to composers, performers and technicians in the name of musical and acoustical experiment and research. Since then the new technology, and especially the new computer technology, has made giant strides forward; but the crucial moment, the crucial meeting-point at which music and the new electronic technology can take off together, has still to be reached.

Gilbert Amy's *La variation ajoutée* was an ungainly, incoherent piece for 18 instruments and tape in which nothing married: neither the instruments among themselves, nor the tape and instruments, nor the discreet elements of the tape-part itself. Every measure of it sounded tentative, awkward—and as a whole communicated an overwhelming sense of the composer's, rather than the listeners', bafflement and indecision.

La variation ajoutée nonetheless had the distinct virtue of lasting only 18 minutes. Philippe Manoury's *Zeitlauf* for 12 voices, brass, percussion, Hammond organ and tape was not quite so evidently at sea in its medium, nor had quite such a mesmerising lack of arresting musical gesture; but it contained in all perhaps 10 minutes' worth of ideas, inflated by the composer, with ear-bending self-indulgence, to just over 65 minutes. The effect of such a rag-bag of half-finished propositions and sketches, grossly over-extended, was the very reverse of the epic which the composer presumably intended. The performances, given by the London Sinfonietta and BBC Singers under Peter Eotvos, were valiant. IRCAM might urgently consider adding a new section to its establishment—a Department of Discipline, perhaps?

★

Thursday's concert at the Barbican Hall, given by the London Symphony Orchestra, under Pierre Boulez, was another in the continuing "Mahler, Vienna and the *20th century*" series, and its hallmarks were unparalleled lucidity and assurance. How well—how astutely, and with what self-possession—the LSO play under Boulez! Their account of Shoenberg's *Verklarte Nacht* (in the composer's string-orchestral arrangement) had splendid ease and homogeneity. Sensuousness is not one of the principal qualities ever associated in the old days with *Boulez's conducting; but in this* performance he found a marvellous sensuous swell, a delight in the ebb and flow of the music and in its heady ascents and descents—as well as in the knife-edge clarity of line and texture.

The performance after the interval of Mahler's *Das Lied von der Erde* had similar clarity, authority, and ease of flow. Walter Raffeiner was the robust, impassioned solo tenor—somewhat too laden for my taste with breathless Wagnerian mannerisms, but powerful in his delivery, and ringing with conviction. The mezzo was *Hanna Schwarz*, beautifully tuned, full-voiced, only occasionally a little solid, even cumbersome, in her phrasing. There were many magical moments (although the Boulez manner does not permit lingering over any single one with too much relish)—not least the wonderful final cadence of "Von der Schonheit," endlessly slow, whose every note was exquisitely timed, perfectly placed.

Hungarian Folk Ensemble on tour

The 75-strong Hungarian State Folk Ensemble is touring the United Kingdom until October 21. Founded in 1951, its aim has been to promote the development of Hungarian dancing, music and choral singing by combining old and new elements.

'Cinderella' on tour

The English Touring Opera, previously the Cambridge Opera Group, is to take its production of Rossini's *Cinderella* on a national tour during November. It will be sponsored by the health company, G. R. Lane.

Alastair Muir

Joan Plowright and Robin Bailey

Mrs Warren's Profession

Michael Coveney

John Osborne's peculiar vetoes may have deprived us of the most obviously appropriate Phoebe Rice of our generation but have resulted instead in the best possible Mrs Warren. Shaw's third "unpleasant" play has recently attracted comment along the lines that puritans are the cultural profiteers of the play. But Anthony Page's scrupulous and efficient revival for the National Theatre in the Lyttelton, an inspired replacement for the projected Plowright/Alan Bates *The Entertainer*, restores a genuinely feminist drama that is not nearly as well known as it should be.

The centenary of this play—written in 1894, performed in spite of the Lord Chamberlin in 1902—will be celebrated with its intellectual relevance intact. Women as a sex, and on the whole, are condemned to attach themselves to breadwinners. And what Shaw defined as the prostitute class of men—journalists and politicians—daily employ their highest faculties to betray their true sentiments.

The play is in some way Shaw's *Ghosts*, taking up the Ibsenite study of mutual discovery between parent and child as Vivie Warren, an ideal *GBS female of whom Saint Joan* is a more spectacular later version, disowns her mother on principled grounds. But the fact that Mrs Warren runs a chain of European brothels becomes almost irrelevant. What appals Vivie is her mother's attempt to use her success as a social passport. And as Shaw says in one of his most brilliant prefaces, "rich men without conviction are more dangerous in modern society than poor women without chastity."

The "social issue" label of the play wears a bit thin as we watch the male predators assemble in the Surrey garden, even if the cottage's thatched roof is a little too like a bad wig and the hollyhocks are visibly wilting in the sun. (Patrick Robertson's interesting design idea of meshing photographic realism with Victorian representation improves in the course of the evening.

Nicholas Selby's creepily important rector is particularly dubitable, and the developing narrative relationship between Vivie and the bouncing ecclesiastical offspring—nicely judged by Mark Payton to incorporate the elements of both Wilde and Saki—adds a sexual confusion to the piece mostly overlooked in the textbooks.

Joan Plowright makes of commonsense a practical virtue, drifting into view like some animated potato face with a starched Beryl Reid voice—she sounds like an Oldham biddy with pretension, all fur coat and no knickers—to present definitive feminist arguments for her shady past. This is not, by a long Chalker, a dead topic. It is still possible, and in some quarters credible, to argue that *liberation lies in prostitution.* But Miss Plowright transcends the bald ratiocination with her cry of "I've kept myself lonely for you," the testament of any dutiful parent, the challenge to any spirited child.

Jessica Turner's Vivie is a contained rather than fulsome portrait, a method of interpretation to which I do not readily respond but which gathers force as she retreats to her Chancery Lane accountant's chambers and disowns the real world of people. Her determination to support herself, to reject her mother's money and to defy the expectations of conventional destiny is powerfully projected from behind steel-rimmed spectacles.

Taking a few stylistic leaves out of Peter Hall's *Importance*, lots of extra juice is squeezed *from the text by John Savident's* incorrigibly villainous Sir George Crofts, the nastiest of all Shavian nasties here endowed with a walk of sidling calculation and an incisively final flash of piranha-like dentures; and by Robin Bailey's beautifully intoned, insufferably imperturbable architect Praed. "I start in an hour from Holborn Viaduct" sounds, in Mr Bailey's charge, the most resonantly funny line uttered in English drama between Wilde and Coward. Which of course it is not, but that is the magical deceit of theatre for you.

Saint Joan/Theatre Royal, Brighton

Michael Coveney

It is interesting how a play of Shaw's like *Mrs Warren's Profession*, just opened at the National, can still take up by surprise whereas an alleged Shavian "masterpiece" like *Saint Joan* does nothing of the sort. *Saint Joan* is vigorous but dull, monolithic and resistant to interpretative invention. Or so it always seems to me, and never more so than at the Theatre Royal in Brighton on Friday night where Clifford William's revival for Anthony Quayle's touring Compass outfit opened a weekend stint before moving on this week to Newcastle and thence, in repertory with *The Tempest*, to Plymoupth, Bournemouth, Wolverhampton, Leeds and Glasgow.

I have never agreed with one of Shaw's best critics, Desmond MacCarthy, that to appreciate *Saint Joan* you have to have experienced religious emotions yourself. It is not a mystical or indeed mystifying play. It contains the profoundly truthful supposition that genuinely religious people are the greatest threat to institutionalised religion; most of Christ's socialist teaching would certainly be thrown out by today's Church of England synod. The true message of Christianity, as Shaw *knew, is anathema to* most bishops and politicians.

Jane Lapotaire, long well-prepared for this role, has a gift of expressing unstrained emotional conviction and when she declares that she has been sent by God to raise the seige of Orléans, to crown the Dauphin in Rheims Cathedral and to chase the English from France, there is no arguing with the girl. Even her adversaries know they have met if not their match then at least their rhetorical superior.

Quayle has worked hard at frowning even harder than he does as Prospero, playing the sober, sombre Cauchon as if expecting black bordered mail with every delivery; Tony Britton has had the lively idea of playing Warwick as if he were a medieval forebear of Coward's Gary Essendine; and John Sharp's Stogumber is suitably flurried and flustered by all the terrible jokes he has to discharge.

The rest of the cast adopt wildly divergent approaches, ranging from Clive Francis's threateningly understated Inquisitor, a treacherously formidable monkishly-garbed opponent whom Joan can easily *identify as God's self-appointed* messenger; to Terence Wilton's cheerfully ebullient Dunois, not at all afraid of the embarrassing poetics about wind and kingfishers on the banks of the Loire.

Finlay James's design is, well, basic, comprising a few forlorn wooden beams in a gibbet arrangement, stock mediaeval costumes and the usual evocation of banners and fleurs de lys. After the recontation and the cowardly sentence, Lapotaire moves confidently into the "Light your fire" invocatiton and as Cauchon issues the excommunication order, the stage begins to glow. The effect is good, but not stunning, for it has been thought of many times before for the simple reason that Shaw demands it in his stage directions.

This is the trouble. The play leaves little room for imaginatime manoeuvre and too few directors seem anxious to break the presentational mould.

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Arts Guide

Oct 11–17

Music

NEW YORK

Merkin Hall (Goodman House): Margaret Evans, mezzosoprano, recital. Händel, Strauss, Verdi, Tchaikovsky, Cilea, Berger, Duke, Peel, Vaughan-Williams, Bridge (Wed). Concerts Plus; Menotti, Verdi, Szmanowski, Bazzini, Chopin, Wolf, Mendelssohn, Beethoven (Thur). 67th W. of Broadway (3628719)

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting: Sibelius, Sallinen, Beethoven (Tue); Rostropovich conducting; Anne-Sophie Mutter, violin. Schumann, Glazounov, Mendelssohn, Dukas (Thur). Kennedy Center (7858110)

CHICAGO

Chicago Symphony (Orchestra Hall): Ivan Fischer conducting. Rossini, Schubert, Bartók, Kodaly (Thur). (4358122).

TOKYO

Tokyo Philharmonic Orchestra, conductor Tadaaki Otaka; Gundula Janowitz, soprano. Mozart, Weber, Wagner. Hitomi Memorial Hall, Showa Women's College, near Sangenjaya. (Mon) (4612500).

Deutsche Bachsolisten, conductor Helmut Winschermann; all-Bach programme. Hitomi Memorial Hall, Showa Women's College, near Sangenjaya (Wed) (2376060).

LONDON

Royal Philharmonic Orchestra, conductor Jukka-Pekka Saraste; Christina Ortiz, piano. Strauss, Grieg, Sibelius. Barbican Hall (Tue) (6388891).

Young Musicians Symphony Orchestra; conductor James Blair; Barry Griffiths; violin. All-Elgar programme. Royal Festival Hall (Tue) (9283191).

ITALY

Milan: Teatro alla Scala; Riccardo Chailly conducting Bruckner and Liszt with pianist Krystian Zimmerman (Wed, Thurs) (80.91.26).

Venice: Basilica of SS. Giovanni and Paolo: Bach's St Matthew's Passion conducted by Gustav Kühn, with the Orchestra and Choir of the Fenice *with the Frankfurter Kantorei and* The Freiburger Vokalensemble (Fri, Sat) (25.191).

PARIS

Monte Carlo Philharmonic Orchestra, conducted by Lawrence Foster, Maria Tipo, piano. J. C. Bach, Beethoven, Ravel, Roussel. (Tue) Salle Pleyel (5610630)

NETHERLANDS

Rotterdam, De Doelen. Lunchtime concert from the Rotterdam Philharmonic under Jeffrey Tate (Wed). Recital Hall: a *fairy* tale evening with Hans Christian Andersen's Nightingale to music by Theo Loevendie, and Stravinsky's Histoire du *soldat*. The Netherlands Music Ensemble conducted by David Porcelijn, with Lieuwe Visser, narrator (Thur) (142911).

VIENNA

Pearce Meisenbach cello evening with Kathron Sturrock, piano: Kodaly, Beethoven, Shostakovitch. Musikverein, Brahms Saal (Wed).

Piano evening with William Blaine: Beethoven, Liszt. Musikverein, Brahms Saal. (Thur).

Saleroom/Antony Thorncroft

Coins from Sussex Mints

The passions of the collector can lead him down some obscure byways. Tomorrow, in its Blenheim Street saleroom, Glendining, the coin auctioneer, is disposing of what it can confidently claim as "the most comprehensive collection of the coins of the Sussex Mints ever offered for sale by auction."

Most were collected by the late Mr H. H. King, and then bought by the current owner, who has now "relinquished the pursuit." The coins date from the reign of the Saxon king Aethelred II to King John, and range in price from £40 to £1,750. Only the British Museum would be able to match this collection, but anyone buying it all could not rest on his laurels—there are coins from Hastings, Lewes, Rye and more, but no example from the rare mint at Bramber.

Among his duties as controller of the musical *life of* Leipzig Bach had to sign receipts for taxes on beer. A signed document on this subject appears in Christie's manuscript sale on Wednesday, and carries a £12,000 top estimate. In the same auction a Beethoven letter of 1825 has a £30,000 top estimate while the complete manuscript of a Mozart love song is forecast to sell for between £40,000-£60,000.

In the same sale the corrected typescript of Agatha Christie's 1961 novel "The Pale Horse" *carries a top estimate of £4,500*; the manuscript of "The Deep Blue Sea," which Rattigan gave to Dame Peggy Ashcroft, looks cheap at around £2,000; and two letters by Marx, written in English, *could make £15,000.*

★

The Islamic market has never quite recovered from the revotion in Iran and the fall in oil prices but demand is certainly *better now than it was* two years ago. On Wednesday Sotheby's sells works of art and carpets, while Christie's concentrates on carpets the following day. A pictorial carpet from Kirman, *depicting all the kings* of Persia up to the 20th century, carries the top estimate of £65,000, while two rare Kum Kapu prayer rugs should make around £30,000 each.

The event of the week in New York happens at the weekend when Satheby's offers a complete set of engravings from Audubon's "The Birds of America." The plates will be auctioned in 435 separate lots and should bring in around \$1.2m for the benefit of the Municipal Archives of New York has six other complete "Birds of America" in its public collections.

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Seeking a role for Eureka

A CRITICAL phase is beginning for Eureka, the proposed programme of co-operation to improve Europe's competitiveness in high-technology. Its future will be the subject of three international meetings in the next month, the first of which takes place in London today.

The first task for the 18 countries involved is to decide precisely what the project is supposed to be. Unlike the $33bn (£23.4bn) U.S. Star Wars research programme which partly inspired it, Eureka lacks a single, overriding goal. Indeed, it has no firm goals at all so far, and the Greek for "I have found it" seems an optimistic title. "We are still looking" might be more apt.

Dangers

Worthwhile co-operation will require skilful compromises and mutual concessions by governments and companies. There are obvious dangers that, without a clearer sense of direction, Eureka could lose momentum or degenerate into unseemly squabbling, in which old intra-European rivalries were painfully exposed.

A broad consensus exists that Europe's competitive weakness is due not to scarce technological resources, but to the failure to exploit them effectively on world markets. There is also agreement on the main causes: lack of a single European market and the fragmented, nationally-oriented structure of much of Europe's industry.

Beyond that, however, attitudes diverge. The British Government views Eureka primarily as a pragmatic exercise in collaboration by private industry, to which governments' main contribution should be dismantling trade barriers rather than offering subsidies.

A market-led programme which encourages companies to take the initiative has much to commend it. However, other countries may need convincing that Britain's frugal approach is not really due to lack of enthusiasm for Eureka.

France, which is strongly attracted to state-directed "prestige" projecets in high technology, favours a generous Eureka budget. In Italy, state involvement in industry is so widespread that government be a foregone conclusion. Bonn backing in some form appears to still seems undecided.

National differences aside, there is a genuine dilemma here. Too often, Europe's larger high-technology companies appear willing to commit themselves to ambitious ventures only when governments take the lead and shoulder much of the risk. Excessively cautious management attitudes are part of Europe's problem.

However, it may be hard to mobilise industrial support for Eureka without some government pump-priming, particularly when European scientists and companies are being tempted by juicy Star Wars research contracts. The next few weeks should show whether a sensible balance of priorities can be struck.

The removal of European non-tariff barriers must not be allowed to become sidetracked by disagreements about the funding and administration of Eureka. It is no use urging companies to attack world markets more aggressively if they are denied access to a single European market.

Acitons

Other actions are urgently needed, too. The competitiveness of some European high-technology sectors, notably telecommunications equipment, is seriously weakened by excess capacity and duplication of effort, which may be solved only by extensive industrial rationalisation.

Much more must be done to create the financial and commercial conditions in which new companies can flourish. Too often, European high-technology policies confuse corporate size with strength. Yet in the U.S., many of the most successful innovations — including the microprocessor, the minicomputer and the personal computer—were pioneered by young companies.

Whatever the programme's final shape, Eureka cannot provide all the answers. It could prove a useful starting point, but it must not become a collective excuse by governments, industry and financial institutions for failing to apply the harder remedies needed to cure Europe's ailing competitiveness.

The British economy

A tale of (at least) two nations

By Michael Prowse

HOW radically has the structure of the British economy altered in the past decade? Casual observation suggests there has been a huge upheaval. Indeed, it is hardly an exaggeration to say that there now seem to be two quite separate UK economies: a service-based economy which flourishes in London and the South East and a production-based economy which languishes in the Midlands and the North.

At the same time, there are now two competing—and compelling—images of British economic life in the 1980s. On the one hand, there is the gloomy vision of those who fret ceaselessly about "de-industrialisation": a grey landscape of deserted factories in what was once the nation's industrial heartland: an endless and depressing vista of dole queues.

On the other, there is the much more encouraging vision of those who talk airily of a new "post-industrial society." A bustling and vibrant, information-based service economy is perhaps best symbolised by the frenetic activity in financial markets or the apparently non-stop growth of business services such as management consultancy. The jobs merry-go-round in the City of London and the seemingly unstoppable inflation of financial sector salaries looks like the icing on a fast-expanding services cake.

Which image is the more representative of the UK's economic health: should we heed the de-industrialists or the post-industrialists? Any judgment has to rest on a detailed examination of the changing structure of the British economy over the last decade, on an analysis of how far casual empiricism about the "new service economy" is backed up by hard statistics.

Measuring the relative performance of the production and service sectors is by no means straightforward: the output of service industries is notoriously difficult to gauge.

The structural changes occurred against a backdrop of disappointingly slow overall economic growth. Over the whole decade GDP grew in real terms by little more than 13 per cent. In the five years from 1979 GDP grew by barely more than 3 per cent.

The macroeconomic trends were dull and depressing. They are also well-understood. Less appreciated, perhaps, is the scale of the variation in the performance of different sectors. The growth rates of service and production industries, and associated changes in employment, over the decade are shown in the two small tables. The main table shows the absolute contribution of various sectors of total GDP growth between 1974 and 1984.

The size of each sector's contribution depends on two things: its relative size and its rate of growth. Thus between 1979 and 1984, agriculture contributed 0.6 units out of a total increase in GDP of 3.2 units (GDP in 1980 was 100 units), or 19 per cent of the total. The contribution was quite out of proportion to the sector's GDP weighting of only 2.2 per cent. It reflected the rapid growth of agricultural output.

The relative sizes of different sectors—even as measured by their now-inaccurate 1980 weights—may come as a surprise. Thus manufacturing accounts for a mere 26.6 per cent of GDP; total production and construction (which includes energy) for only 42.4 per cent.

Even more striking, the national accounts grouping "banking, finance, insurance, business services and leasing"—call it "financial services" for short—accounts for 11.6 per cent of GDP. By this measure financial services, broadly interpreted, contribute more to GDP than energy and water (9.5 per cent), mechanical engineering (3.8 per cent), transport and communication (7.2 per cent) or even education and health (8.7 per cent).

There is a complication: the national accounts have a negative balancing item "adjustment for financial services," with a weight of 4.1 per cent of GDP, which threatens to shrink the size of the sector. This is to compensate for double counting of profits in the accounts. But statisticians say there is no good reason to deduct the entire adjustment from the banking, finance and insurance sector. The gross weight of 11.6 per cent is thus the best, if imperfect, guide to the size of the financial sector.

The most startling revelation from the sectoral analysis is that the increase in the output of services in the decade to 1984 was equivalent to about 80 per cent or more of the total increase in GDP (see main table). Moreover, the expansion of financial services alone (using the gross measure of the sector) accounted for nearly half the total increase in output.

The contribution of services to the overall increase in GDP between 1979 and 1984 was even more significant. In this period, the increase in the output of service industries was apparently close to 150 per cent of the rise in total GDP (4.5 units compared with 3.2). The growth of financial services alone comfortably exceeded the overall rise in total output.

Energy, principally North Sea oil and gas, was the other main engine of growth in the decade. But, interestingly, energy contributed relatively more to GDP growth between 1974 and 1979 (when the oil build-up was under way) than in the following five years. The figures for the later period, however, are slightly distorted by the 1984 coal strike.

The counterpart of the expansion of oil and services was the contraction of manufacturing and construction. These sectors shrank by 11 per cent and 7 per cent over the period and the output lost because of their decline amounted to about 30 per cent of the net increase in GDP over the period.

How was the service economy, in particular the financial sector, able to contribute such a large proportion of recent GDP growth? Answer: by growing much faster than the rest of the economy. In the decade to 1984, service output grew by 21 per cent in real terms—seven percentage points more than the economy as a whole. The real output of financial services (if the National Accounts are to be believed) increased by about 70 per cent over the period.

The divergent fortunes of production and services are as evident in the employment figures. Over the decade, 2.7m jobs were lost in production and construction and 1.2m created in services. Financial services alone created an extra 387,000 jobs—more, for example, than wholesale and retail distribution and hotels and catering combined. It was the only sector to create substantially more jobs after 1979 than before.

The jobs and output arithmetic fully confirms casual impressions of a sea change in the British economy in the past decade. There has been a dramatic shift from production to services in which the financial sector has held a starring role. What other lessons can be drawn from a lightning survey of sectoral performance in the last 10 years?

Most obviously, that it is hard to generalise about the causes of manufacturing's demise or services' dynamism. The difficulty lies in the heterogeneity of the two sectors: some service activities have performed very poorly over the decade; some manufacturing sectors have done surprisingly well.

Within services, a sharp distinction should be drawn between the non-traded activities of the public sector—for example, education and health, public administration and defence—and traded, private-sector services. The lion's share of the growth of service output has been in the private sector: between 1979 and 1984, the Government succeeded in slowing to a standstill the growth of public-sector services; previously they had been growing in line with GDP.

But some traded services also showed sluggish growth. Output of wholesale and retail distribution and hotels and catering, for example, grew by only about 4.5 per cent in the decade to 1984; transport, traded but largely in the public sector, did even worse.

If some service sectors grew more slowly than overall output, some manufacturing sectors did much better. Output of electrical and instrument engineering, for example, grew by 23 per cent over the period; chemicals, which grew by 13 per cent, at least kept pace with GDP.

The few bright spots in manufacturing were only a small consolation for severe contraction in most of the sector. Mechanical engineering, motor vehicles and parts, and textiles, for example, declined by 30 per cent, 36 per cent and 31 per cent respectively.

Another lesson from the sectoral analysis is that 1979 did not, except with regard to employment, represent a decisive watershed. A new government may have had different policies and priorities, but most of the important industrial trends of the 1980s—the expansion of oil, the decline of manufacturing, the growth of financial services, even the comparatively strong performance of some manufacturing sub-sectors such as chemicals—were firmly established in the second half of the 1970s.

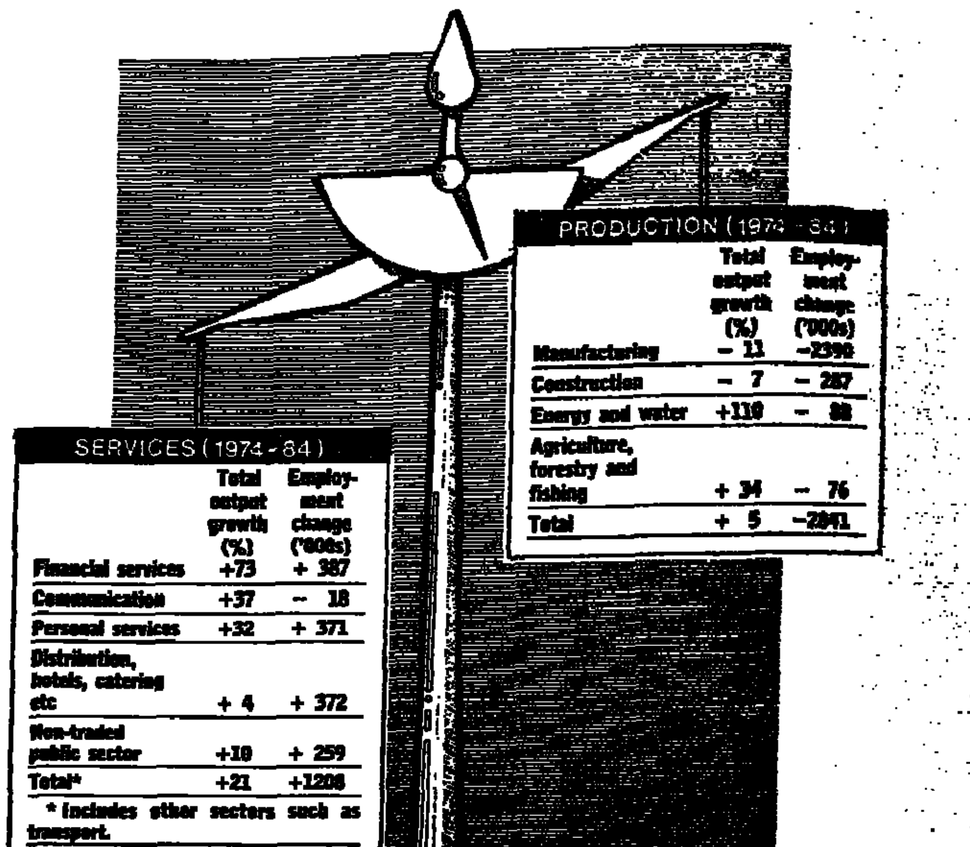
Employment prospects, however, did change dramatically. Between 1974 and 1979, an extra 1.1m service jobs were created which more than offset the loss of 650,000 manufacturing jobs. But the next five years saw the creation of only 132,000 service jobs and the disappearance of 1.8m production jobs. The haemorrhage of manufacturing jobs reflected the deeper decline of the sector after 1979; but the paucity of service jobs in the later period is not accounted for by the small slowdown in the sector's overall growth.

The present government's squeeze on the public sector provides a partial explanation: between 1974 and 1979, a third of the extra service jobs were in non-traded services such as public administration and education and health. But it also looks as though the labour productivity of the traded-services sector increased substantially after 1979.

Between 1979 and 1984, the positive contribution to the rise in total GDP from traded services was nearly double the negative contribution from manufacturing. Yet less than 15 per cent of the lost manufacturing jobs were replaced. The implication is that productivity in closed manufacturing plant was way below that in the new expanding service industries.

It thus seems likely that even if the most dynamic sectors such as financial services continue to expand at the pace of the past decade—which must be counted improbable—they cannot possibly create sufficient demand for labour to absorb those production workers displaced by de-industrialisation.

Economic growth, Alexander Solzhenitsyn once complained, is not only unnecessary, but ruinous. The Russian exile's bon mot cannot be taken seriously by the economically literate, but a slight variation on his theme may attract considerable support from the 2.5m manufacturing workers who have lost their jobs in the past decade: economic change is necessary, but ruinous for many. Some of the economic and political strains of recent years reflect the fact that the growth of the past 10 years has created winners and losers on a scale unparalleled since the war.



PRODUCTION (1974-84)

	Total output growth (%)	Employment change ('000s)
Manufacturing	− 11	−2390
Construction	− 7	− 287
Energy and water	+119	− 88
Agriculture, forestry and fishing	+ 34	− 76
Total	+ 5	−2841

SERVICES (1974-84)

	Total output growth (%)	Employment change ('000s)
Financial services	+73	+ 387
Communication	+37	− 18
Personal services	+32	+ 371
Distribution, hotels, catering etc	+ 4	+ 372
Non-traded public sector	+10	+ 259
Total*	+21	+1208

* Includes other sectors such as transport.

BREAKDOWN OF GDP† EXPANSION

Total volume increase (decrease)	1974-79	1979-84	1974-84
GDP	9.3	3.2	12.5
Agriculture	0.1	0.6	0.7
Energy and water	4.1	0.9	5.0
Manufacturing	(0.8)	(2.4)	(3.2)
Construction	0.0	(0.5)	(0.5)
Services	5.9	4.5	10.4
(Financial services)	2.0	4.0	6.0
(Non-traded public sector services)	1.0	0.0	1.0

† In 1980 level of GDP = 100.

Source: CSO.

Two downside possibilities

NOBODY EXCEPT President Reagan seems to attach much weight to the Gramm-Hollings-Rudman amendment. This rather lackadaisically tacked a budget-balancing commitment on to the routine Federal debt-ceiling bill in the U.S. Senate last week. Foreign observers must think that this is not the way in which serious policy changes are made. The chances are that indeed it is not; but economic policy is not just a matter of backing favourites. It is also a matter of having a response ready, for less probable contingencies.

The Senators have been criticised because they have laid down a programme to eliminate the Federal deficit within four years without even a hint of how it is to be done; but this process of proclaiming the ends and letting the means look after themselves is on occasion the American way. The President probably remembers more vividly than commentators this side of the Atlantic another wholly impractical measure, much scorned when it was proposed — Proposition 13 on a California referendum, which put a cap on property tax rates. It was passed, though, and left a Governor called Ronald Reagan making all kinds of previously unthinkable cuts to preserve the state from bankruptcy.

It is just possible, then, that the can-do spirit is the only practical one in face of a deficit which has resisted all attempts at the usual horse-trading which passes for political decision-making. Has anyone outside the U.S. even begun to consider the consequences of the U.S. actually doing what its partners are constantly nagging it to do?

Oil price

Another downside possibility which has actually been studied quite closely in a purely domestic way in London is that of an oil price collapse. Oil price speculation has of course become an annual event, and so far a combination of the spot market and the dollar decline is contriving a remarkably smooth adjustment. However, the major oil companies still regard a disruptive collapse some time in 1986 as something near an even-money possibility. It is a very safe bet that their contingency plans are much further advanced than those of governments; yet a settlement of the Gulf War would probably make this an odds-on chance.

What needs stressing is that these are in no sense trivial questions. Both a better-balanced U.S. Budget and (except perhaps in London) a sharply lower oil price would be greeted as good news; but both could also prove to be disruptive events, and both would be unambiguously deflationary. The potential scale of deflation is large. A U.S. budget tightening would impact heavily on the current account, reducing net demand for America's trading partners by perhaps $25bn a year. A lower oil price would deflate demand similarly.

Dilemma

There is no difficulty in proposing a response to a deflationary shock, but there could be substantial difficulty in persuading those with most power to help to hear the answer: a decade-and-a-half of wrestling with inflation has left them, like the British defenders of Singapore in 1942, with all their guns pointing the wrong way. It is possible, of course, that the rapid fall in interest rates which might follow such shocks —as a result of efforts to stabilise the banking system rather than the world economy —would be enough to restore stability through an investment boom, but it is highly improbable.

The history of the last two oil shocks, which posed a dilemma rather than a straight challenge, shows that the nature of the fiscal response makes a large difference to the outcome. A shock without firscal response might be almost as deflationary as the 1973 shock was inflationary. As we have explained, these are possibilities, not probabilities; but it would be reassuring to know that contingency plans in national treasuries and central banks, in the IMF and the OECD were being elaborated half as thoroughly as they are in the offices of the oil majors.

Men and Matters

Two Stuttgart men

You might expect Heinz Dürr to be feeling miffed.

After all he has spent five tortured years dragging the AEG electricals group away from bankruptcy and setting it on to a path of steady profits.

Often pitied, sometimes joked about, Dürr, aged 51, pressed on doggedly and began to reap the fruits of success.

Now with a lot of the spade-work done, AEG in the black and the share price soaring, Daimler-Benz looks like moving in on the show—perhaps to take it over. The Stuttgart-based vehicles group is poised to make AEG its third company trophy of the year after acquiring MTU and Dornier.

There are two reasons why Dürr may not, after all, resent the swoop by Daimler-Benz.

For one thing Dürr would almost certainly prefer a strong industrial owner of AEG to the company enuring continued major influence by the banks, which now hold half the AEG stock.

The second reason is that Daimler is run by Professor Werner Breitschwerdt, a brilliant engineer aged 58, who, like Dürr, is a Stuttgart native.

Stuttgarters have a well-deserved reputation for knowing a god deal when they see one. Dürr can fairly take Breitschwerdt's interest in AEG as a testimony to a rescue job well carried out.

"It's at the set—the conferences are all over Dad—this is the Childrens' TV"

Sky-high rates

An offer the cautious space traveller cannot refuse. Crawley Warren, a London company of insurance brokers, is prepared to insure the lives of astronauts for up to $1m.

For a premium of about $1,000 the space-farer (or his or her spouse) would receive that amount in the event of death or serious injury while orbiting the Earth.

As a publicity exercise recently the broker insured (for free), the lives of six American astronauts on the shuttle trip which repaired a damaged U.S. Navy satellite.

After that gimmick the company says it is serious about extending the insurance industry's conventional personal accident cover (which currently applies to people in high-risk occupations like diving), to men and women in space.

John Howes of Crawley Warrent tells me he is trying to fix policies with companies such as 3M and McDonnell Douglas which are arranging for their employees to travel into space on future missions organised by Nasa, the U.S. space authority.

One stumbling block is that by far the biggest percentage of astronauts are government employees. And governments, by tradition, are most reluctant to take out insurance on anything, or anybody.

That rules out selling life insurance to Britain's first astronaut, an RAF fighter pilot, who is due to leave the launch pad next year.

Crawley Warren may, however, have better luck with the members of the public who, if we are to believe pundits at Nasa, will be going into space in increasing numbers in the coming years.

Mining leaders shun Australia

An unlikely casualty in Australia ofthe growing unrest there about links with South Africa is that pillar of the economy, the mining industry.

An international mining conference scheduled for Canberra next year has been switched to Singapore because of concern over possible demonstrations against 200 South Africans among the 1,000 delegates.

The London-based Council of Mining and Metallurgical Institutions, which organises the world conference every four years, was planning to make a return visit to Australia after an absence of 20 years. "But," says an official, "It was felt that, under the circumstances, it would be inappropriate to hold it in Canberra."

He adds: "The South Africans for ma very important part of the institution's council — we do not want to subject them to harrassment."

The conference organisers read danger signals into the recent action by the Australian Government blocking visas for South African businessmen who wanted to visit Australia for an International Rotary golf tournament.

Why switch to Singapore for a mining conference? The island state will be woefully short of the opportunities to visit iron ore, gold, and bauxite mines that had been laid on for the world mining leaders by the Australians.

On the plus side, the regime of prime minister Lee Kuan Yew is unlikely to tolerate anti-apartheid demos.

Moving tale

Barclays Merchant Bank has spent the last couple of days moving into a grand site by the Thames to ready itself for the city revolution.

More in sorrow than in anger Dr Colyn Gardner, managing director of another City busines, D. C. Gardner banking consultants, tells me of unexpected police resistance to his own company's move rom Bartholomew Place to New Street a week ago.

Giltspur Bullens, the removers, applied and gained permission from the City of London police to park their large van outside the new premises to move in furniture, computers, and the like.

But the move was only just under way when a number of policemen appeared and withdrew the parking dispensation.

The reason was that two cars were parked illegally on double yellow lines on the opposite side of the road thus obstructing the right of way.

The removal men were not pleased at the prospect of humpting all the gear about 100 yards from the nearest main road. A traffic warden was asked to have the illegally parked vehicles towed away.

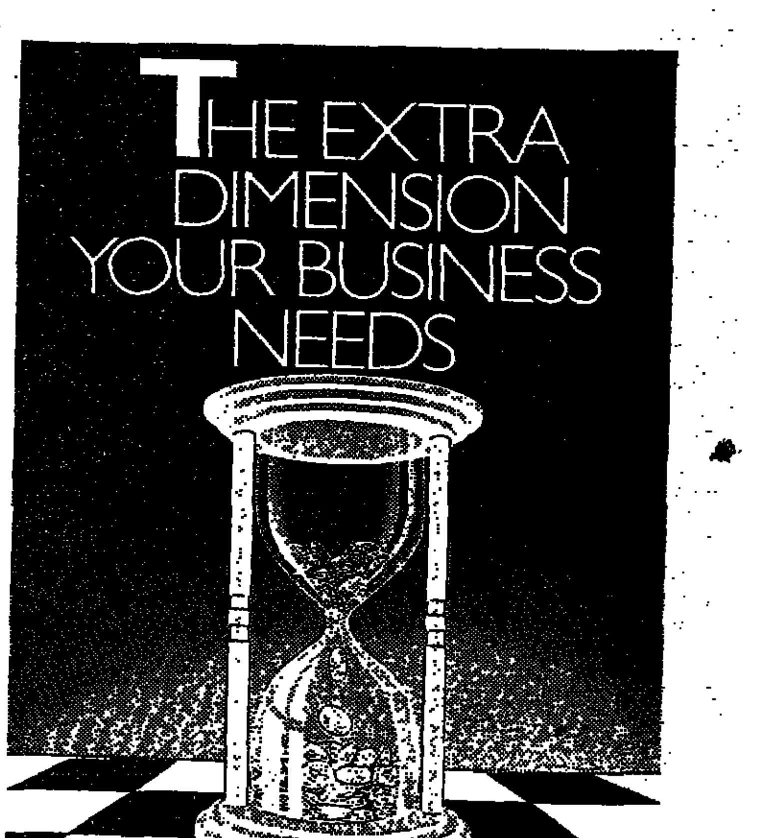
I now quote Dr Gardner "The warden demonstrated a singular reluctance to put pen to ticket and scuttled off to the nearby police station. The warden returned with the culprits — all policemen — who rather sheepishly drove off."

Divided we stand

Concern about the stability of Belgium, one of the most politically disputatious states in Europe, and now tired after an election campaign of 10 months, may be misplaced.

Noting that police controls are sperad thrugh theree ministries, Herman de Croo, minister of communications, observes, "There'll never be a coup d'etat in my country. Nobody knows where the poyer lies."

Observer



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FOREIGN AFFAIRS: THE NEXT EEC SUMMIT

Italy opens a Pandora's box

By Ian Davidson

THE MEMBERS of the European Community are in the throes of deciding whether or not, for the first time for many years, to be serious about their collective future. The so-called "Inter - Governmental Conference," which was convened at the Milan summit just before the summer holidays to negotiate reforms in the running of the Community, is slowly grinding into action. The deadline for the tabling of national proposals is tomorrow; the foreign ministers are supposed to start taking a grip of the negotiations next Monday; and they are meant to deliver a package to the next European summit in early December.

Yet it would be hard for the man in the street to tell that anything at all was up. Of course, even at the best of times the Community lacks popular sex-appeal. But it is striking how little interest is being publicly generated by an exercise which may, just may, turn out to be of historic significance — for good or ill; even more striking is the fact that, with only seven weeks to go before the Luxembourg summit, even the bureaucratic insiders are wholly uncertain whether the negotiation will lead to a triumph or a disaster.

When the Italians launched their proposal out of the blue at the Milan meeting, it was absolutely clear that, in the minds of those who supported the idea, the purpose of the Inter-Governmental Conference was to negotiate changes in the Treaty of Rome so as to make the Community work better, to introduce more majority voting in place of unanimity, and in some way to strengthen the role of the European Parliament. Mrs Thatcher, the British Prime Minister, opposed the idea of a conference, and contested the need for any treaty changes; but her opposition could not alter the political fact that treaty changes were to be the subject of the conference.

In principle, that is still the theme of the drama that is now about to be enacted. But there seems more than a little uncertainty whether all the actors are quite so happy with their assigned parts—and it is some of the federalist heroes, in particular, who seem to be having second thoughts.

The Italian proposal for a conference caught everybody by surprise; but it might have been supposed that the seven member states which voted for it would have a rough idea of what they wanted it to achieve, and would have been eager to draft recommendations to put before the conference in due course. Not a bit of it; the suggestion box is almost empty. There are four different drafts on the tighter co-ordination of the foreign policies of the member states, and the separate negotiations on this subject (which lies outside the competence of the Treaty of Rome) should by now be within reach of a single unified text. But on the central issue of the functioning of the Community, there is very little.

The German Government has put in some proposals for strengthening the role of the European Parliament, and if it can sort out the disagreements between the different ministries in Bonn, it *may* put forward a paper on the introduction of majority voting for article 100, which covers the harmonisation of national legislation. The Dutch and/or French Governments *may* put in papers on monetary policy. From the Italians, who set this hare running, there is nothing.

By contrast, proposals have rained down from the Commission like confetti. When this exercise started, the conventional wisdom in Brussels was that, given the shortage of time, the conference should be limited to a handful of treaty changes so as to streamline the Community's decision-making rules.

Since the summer, the Commission has vastly enlarged the agenda, with proposals for new treaty chapters on such diverse issues as the liberalisation of the internal market, the environment, technology, culture, the powers of the Commission, the role of the parliament, the transfer of resources from the rich to the poor member states and (coming shortly) monetary policy.

The explanation for the contrast between the prolixity of the Commission and the near-silence of the member states is illuminating but not necessarily reassuring. The Commission has seized on the conference as an opportunity—perhaps the last for many years—to codify and bring within the competence of the Community, a number of policy areas which have so far been handled, *if* they have been handled, outside.

Some of the member states, *on the other hand*, have discovered, after a little bit more reflection, that they are no longer sure that they are as keen on the bright new world of a more integrated Europe as they seemed or pretended to be three months ago. Italy and the Benelux countries, it is said, are still gung-ho for radical reform, even if ther remains some caution in Belgium and the Netherlands. But the French Government seems to be uncommitted, at least in public, while echoes from Bonn suggest reservations, not merely about the whole sale extension of majority voting, but also about the liberalisation of trade in goods and services within the Community.

In other words, some of the member states are wondering whether they are not, after all, quite comfortable with a stagnant Community. The trouble is that Italy has opened Pandora's box, and it cannot easily be shut.

The British Government, meanwhile, seems to be wearing a self-satisfied smirk, as it revels in the role of *tertius* (or perhaps *decimus*) *gaudens*. It was opposed to the holding of a conference, and it does not believe treaty changes are necessary or desirable—though it rules this out much less categorically than it used to. It declines to make any proposals of its own; it will take a position when and if the others can agree on what they want.

However smugness could be *a very dangerous posture for* the British Government to adopt. After all, Mrs Thatcher has misjudged the way the wind was blowing on previous occasions, and she could well be surprised again. But this time the stakes could be much higher, and she cannot afford to find she is stuck with the wrong tactics. The Germans may for the moment be divided, and President Mitterrand may not have made up his mind. But it is still possible that, when the chips are down, they will both favour a maximalist position. If the Six were to reform a united front, it would be too late for Mrs Thatcher to start arguing.

The trouble is that there are two very large questions which are floating around the Inter-Governmental Conference. The first question, and the ostensible purpose of the conference, is: how much constitutional change is needed to get the Community moving again? The second question is much more difficult: what is the operational purpose of getting the Community moving again? Is it to outvote the Germans on the liberalisation of insurance services? Is it to create a fully fledged monetary union?

The original doxology of the Community was that it was a mistake to attempt to pre-empt in any detail its eventual destination. It started with some limited policy objectives, but its distinguishing characteristic *was a set of instituitons with* the power to set new objectives as time passed. The dilemma facing the conference is whether its task will be made easier or more difficult if it tries to define a new long-term programme for the Community's future development.

You can argue it either way. On the one hand, it will certainly be very difficult, and may be impossible, to reach a consensus on the long-term objectives of the Community. Luxembourg starts from a maximalist, Greece from a minimalist, position. It is hard to imagine any form of words which would reconcile their positions and still retain some meaning.

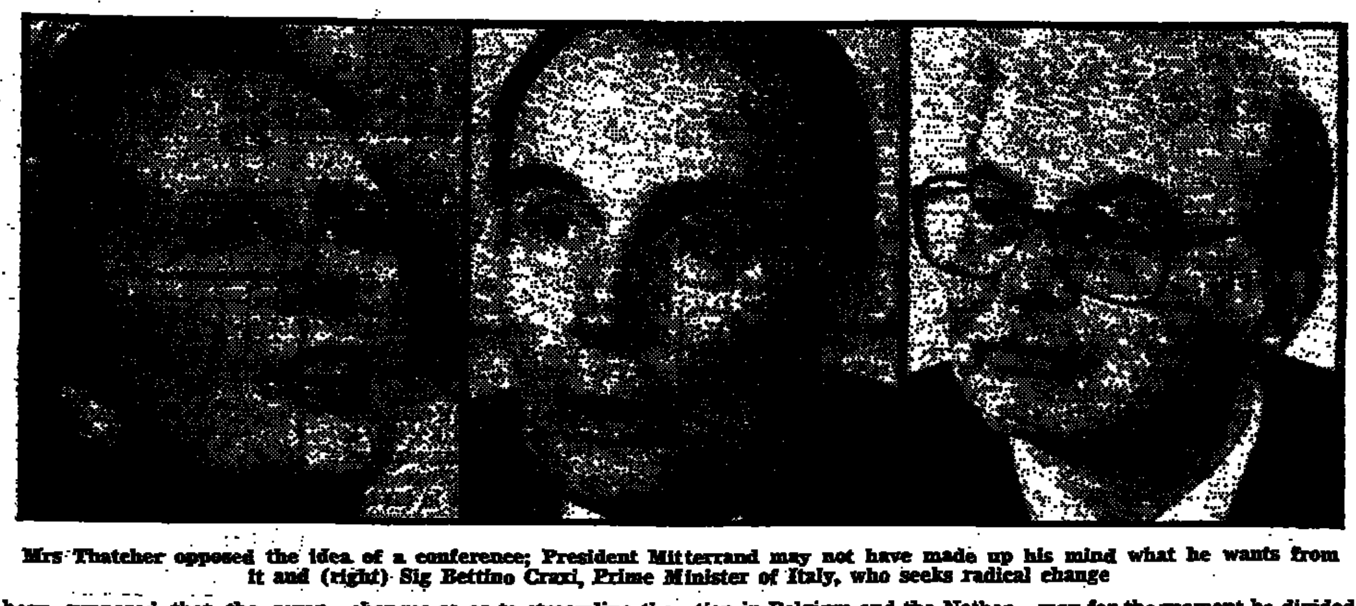
By this argument, the policy function of the conference could be minimalist' the full implementation of the Rome Treaty pretty much as it stands today. This would have three merits. First, if it could be accomplished, it would be a tremendous achievement. Second, and more important, noneof the member states could have any reasonable grounds for quibbling: they all signed it. Third, it would avoid futile argument about an unknowable fuure.

The counter argument is that a Community of 12 member states is very different from the original Six and needs a different approach. For one thing, there is much greater divergence of economic interests and *levels of prosperity*. For another, there is a similar divergence in political attitudes.

The Germans have reservations about trade liberalisation because they are doing nicely without it. The Greeks have reservations because they do not expect to do nicely with it. If the conference is to reach any result, it must be unanimous; to get unanimity, there needs to be some assurance that the future will bring benefits to the poor as well as to the rich. In other words, the poor *may have to be bought off.*

That is why some people support the Commission's attempt to define some of the principles of future development. But perhaps it is also why the Germans are wary of being sucked into a mechanism which will expose them to more competition from the rich, and require them to pay more for the poor.

The choice, of tactis and strategy, is hard for all, but it cannot now be eluded. When the seven voted for a conference three months ago, perhaps *they were on auto-pilot, hallucinated* by the Euro-drug. Now their bureaucrats have had time to weigh possible outcomes, theye hesitate. But for Mrs Thatcher's Government to imagine there is any safety in smirking on the sidelines is just crazy. Suppose the seven decide that, after all, they do want what they signed up for?



Mrs Thatcher opposed the idea of a conference; President Mitterrand may not have made up his mind what he wants from it and (right) Sig Bettino Craxi, Prime Minister of Italy, who seeks radical change

Lombard

A driving lesson for connoisseurs

By Samuel Brittan

A dialogue with incidental music, usually out of tune.

(To be played within 300 yards of the Mansion House. May tour on Wall Street and 20th Street North-West, Washington.)

Swirling mists clearing very slowly.

S.B.: We are going to Glasgow aren't we?

"Sir" Pete: Oh do shut up. I know we're going to Glasgow (Its other name is national income in money terms growing at a stable rate.) The question is how to get there.

Driver Terry: The M3 is fog-bound and full of false signals. The MO motorway performs well. My mates have been doing some tests with their black box and they say the MO gives some really good vibes. Me; I stick by my mates.

Driver Eddie: And fall off the cliff with them. You'd be very foolish to ignore M3. I've known chaps drive through the M3 warning lights and take off in an inflationary spin. Try to talk about MO to my pals in the City. They can't stop laughing if you even point your indicator in that direction.

Sir Pete: Why not try the big new M2? It's very broad and it's been especially designed at great expense to cover the right sort of monetary ground. Full of transactions of all kinds. They all get caught between the verges. That's the way to cover all our territory. Isn't it time we used it? After all I had so much trouble getting our friends at the bank to do their share of the work. We even forced them to put some institutions on the tarmac. That took some doing, I will tell you.

Driver Terry: It's still full of snags and traps. One of my mates had a very bad smash on the trial run. Went completely off course at the first distortion. Woke up in hospital babbling of building societies. I'm not going along it until we've done much more work, with lots of regressions buttressing the road works. If you want a statistical leap in the dark you'd better jump off yourself, Nige.

Nige Knownotall: It's my truck. I give the orders round here.

Boss Maggie (offstage): Oh, no, you don't.

Sir Pete: I wish someone would.

Nige: We'll look first at the one motorway and then at the other. Go some of the way each, as it takes my fancy. You could call it a kind of average. Terry's good at calculating such things.

"The Guvnor": 'Ullo, 'ullo, 'ullo. What about all the liquidity on my private sector. You can only drive by the seat of your pants, as my pay Paul always says.

Nige, Pete (not quite in unison): I'm fed up with the lot of you. Let's just lock ourselves in that Volkswagen, EMS 8, and hitch a lift.

Terry, Eddie, sundry "advisers": Yes, maybe, well, perhaps.

Roll of thunder. Orchestra plays the chords for the Queen of the Night.

Boss Maggie (appears through a trap door): Lock me up with a lot of continentals? Over my body! After the way they insulted me in Milan? Alan, Brian, help, help!

Nige: What do I tell my pals at the Mansion House?

The Brokers' Boys (accusingly): You are underfunding? Confidence draining away! Explain, Explain!

Chorus of monetary mechanics: (words are completely incomprehensibe).

S.B. You'd better explain yourself. But more important concentrate on the destination. Make your target Glasgow. Then the drivers can use their discretion according to road conditions, without committing themselves to one speed or one route.

Pete, Nige (nearly in unison): Again! You're obsessed with Glasgow.

S.B.: Yes, I am obsessed with the destination. We pay these drivers to find the best routes. Let them take all available information into account—Terry's real forecasts, motorway conditions, everything on the governor's radio. We've put our passengers into a *muddle by posting up these* fog-bound routes, which we haven't followed because they're full of potholes. Never heard of a healthy obsession?

(Cast, variously) M0, M3, PSL, EMS, Private sector liquidity.

Orchestral cacophony. Boss Maggie blows shrill whistle. Silence. Curtain.

Letters to the Editor

Build-up of liquidity

From the Group Economic Adviser, Midland Bank

Sir,—The recent rise in the broad monetary target, £M3, is a predictable consequence of underfunding the PSBR. In the last four months sales of central government debt to the non-bank private sector have amounted to only £1.5bn (seasonally adjusted), against a PSBR of £3.5bn. This has allowed the Bank of England to reduce its bill mountain by £2.5bn, but broad money has grown by £6bn, or at an annual rate of 17 per cent.

The aim of this policy is presumably to reduce long-term interest rates and equity yields in order to persuade company treasurers to take the plunge and fund some of their bank borrowing. There is no sign yet of success: rights issues in the last three months have been low, and the corporate long-term bond market is still slumbering. Evidence of the build-up of spare liquidity can, however, be seen in a stock market chasing takeover rumours.

It is a dangerous policy. Notwithstanding the slow growth of M0—clear evidence of the success of credit cards and automatic teller machines in encouraging people to hold less cash — the build-up of liquidity makes us vulnerable to a rerun of the conditions at the turn of last year. If sentiment turned against sterling, the weak monetary position could easily force the Government and Bank of England to raise interest rates again sharply.

Company treasurer will not fund their bank borrowing until long-term yields have fallen appreciably. But with world capital markets now so integrated long yields in the UK depend much more on the U.S. Government and on the outlook for inflation in this country than on the British Government's funding policy. It is time that funding, if necessary overfunding, was resumed as the least risky and least damaging means of controlling liquidity in the economy.

Andrew D. Bain.
Poultry, EC2

Reducing taxation

From Mr J. McNiven

Sir,—I am amused by Mr Lawson's theme at Blackpool that it was of "the first importance to reduce further the burden of income tax."

In practical terms all taxes have been increased rather than reduced. National insurance snakes up inexorably (and how can it do anything else?); the tax on my company car keeps going up as does the additional fuel benefit scale; and when I dared to repair the roof of my house I paid 15 per cent VAT.

I have had to pay more tax not less and indeed I had to find more cash to pay more tax as well.

Would not Mr Lawson have been able to make a greater contribution in Seoul at the International Monetary Fund meeting rather than hinting about tax cuts at Blackpool?

J. F. N. McNiven.
White Hart Place Cottage, High Street, Petworth, Sussex.

Relief on interest

From Mr N. Dangoor

Sir,—I agree with Mr Cook (October 10) that the abolition of relief on mortgage interest alone would be unfair. At present the whole economy is geared to borrowed money and by allowing full relief on bank and other interest the tax system is designed to encourage borrowing and to help the moneylender.

Abolish tax relief from all interest payments and you will find people are able to save and invest in their own businesses rather than spend and borrow. In this way the economy can be rejuvenated literally by a stroke of the pen.

N. E. Dangoor.
25, Albert Hall Mansions, Kensington Gore, SW7.

Anti-nuclear Party

From the Treasurer, Socialist Environment and Resources Association

Sir,—Your report on the energy policy debate at Labour Party conference (October 3) was inaccurate in one important respect. Conference carried a resolution calling for "a halt to the nuclear power programme and a phasing out of all existing plants." This is now the policy of the Labour Party, contrary to the statement in your report that the vote "was well short of the two-thirds majority required to make the resolution official party policy." Although two-thirds is necessary to get something into Labour's programme, a simple majority is all that is required to make policy. Labour has therefore become for the first time an anti-nuclear Party, no longer hedging its bets on the issue.

What will be interesting now is to see whether Jack Cunningham, MP, the strongly pro-nuclear Shadow Environment Minister, finds it possible to speak for his Party's new policy. If not, those of us in the Labour Party who do support party policy may soon be pressing for him to be moved to another job.

Victor Anderson.
9, Poland Street, W1.

Derelict land

From Mr D. Marks.

Sir,—I refer to the urban renewal supplement of October 8. While much has been achieved, *exhortations* to utilise derelict land in order to spare green field sites can bear only limited fruit when decisions relating to grant aid cannot be made far more speedily than current bureaucracy permits.

May I be permitted to outline an example? My company wished to develop a site which suffers from three types of dereliction, any of which could qualify it for a derelict land grant. The site is in an area where the Department of the Environment wishes to see applications for urban development grant. My company applied for a derelict land grant in January this year and asked for the support of the local authority to an urban development grant in July this year. To date no decision has been reached on either. Unless the speed of decision making is considerably improved and the promotion of urban development grants taken out of a political context, the hoped for improvement in inner city areas of dereliction will not materialise.

D. T. Marks,
166, Main Road, Sundridge, Sevenoaks, Kent.

Inner cities policy

From Mr J. Morris

Sir,—One of the things we have noticed in the north west is that five years ago, local authorities wanted private developers in for social reasons and now it appears that they want the developers in for the money they get for the land. This has the unfortunate effect of very high density development and a fairly moderate standard of development.

The value of the land in inner cities would appear to have dropped dramatically over the last two years and local authorities do not seem to be able to accept this. Building society valuers have looked at the large amount of the repossessions, occasioned by the slump, and greatly reduced their valuations; some of our houses are now valued at 10 per cent less than we sold them at two years ago. When we mention urban development grants to some local authorities, the reaction is very negative.

James Morris.
Morris Homes,
155-157, Manchester Road, Higher Ince, Wigan, Lancs.

Wrong, wrong and wrong

From Mr R. Ford

Sir,—In his article (October 4) analysing the Labour Party conference, Malcolm Rutherford refers to Neil Kinnock's description of some party members as latter day public schoolboys taking their inspiration from Kipling: "It matters not whether you won or lost, but how you played the game."

Unfortunately, Mr Kinnock attributed an inaccurate quotation to the wrong poet against the wrong educational background.

The quotation comes from *Alumnus Football* by Grantland Rice and reads:

For when the One Great Scorer comes
To write against your name,
He marks — not that you won or lost—
But how you played the game.

Sadly, "American college footballers taking their inspiration from Rice" doesn't have the same pejorative undertones, while the sentiments seem to argue in favour of pure Socialism rather than pragmatism in the search for political power. But who is Mr Kinnock's Great Scorer?

Roger Ford.
8, Russellcroft Road, Welwyn Garden City, Herts.

Material evidence

From Mr M. Ponsonby

Sir,—The claim of C. Beattie, QC, (October 7,) that "pay increases of 9 per cent . . . will be reduced by tax and national insurance to about 6 per cent" does not stand up to cross-examination. He overlooks two material pieces of evidence: that the previous level of pay was subject to these imposts, and, that allowances, etc, were raised in the budget. When these facts are taken into account, a 9 per cent increase on a year ago in gross pay at most levels results in a net pay rise of a little over 9 per cent, and only at very high levels does the net rise fall below 8 per cent, because the bands were raised by only about 5 per cent.

M. E. Ponsonby.
78, Harant Road, Emsworth, Hants.

TENDERS MUST BE LODGED AT THE BANK OF ENGLAND, NEW ISSUES (C), WATLING STREET, LONDON, EC4M 9AA NOT LATER THAN 10.00 A.M. ON THURSDAY, 17TH OCTOBER 1985, OR AT ANY OF THE BRANCHES OF THE BANK OF ENGLAND OR AT THE GLASGOW AGENCY OF THE BANK OF ENGLAND NOT LATER THAN 3.30 P.M. ON WEDNESDAY, 16TH OCTOBER 1985.

ISSUE BY TENDER OF £800,000,000

10 per cent TREASURY STOCK, 2001

MINIMUM TENDER PRICE £98.25 per cent

PAYABLE AS FOLLOWS:
Deposit with tender £40.00 per cent
On Monday, 25th November 1985 Balance of purchase money

INTEREST PAYABLE HALF-YEARLY ON 26TH FEBRUARY AND 26TH AUGUST

This Stock is an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961. Application has been made to the Council of The Stock Exchange for the Stock to be admitted to the Official List.

THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND are authorised to receive tenders for the above Stock.

The principal of and interest on the Stock will be a charge on the National Loans Fund, with recourse to the consolidated Fund of the United Kingdom.

The Stock will be repaid at par on 26th February 2001.

The Stock will be registered at the Bank of England or at the Bank of Ireland, Belfast, and will be transferable, in multiples of one penny, by instrument in writing in accordance with the Stock Transfer Act 1963. Transfers will be free of stamp duty.

Interest will be payable half-yearly on 26th February and 26th August. Income tax will be deducted from payments of more than £5 per annum. Interest warrants will be transmitted by post. The first interest payment will be made on 26th February 1986 at the rate of £2.9830 per £100 of the Stock.

Tenders must be lodged at the Bank of England, New Issues (C), Watling Street, London, EC4M 9AA not later than 10.00 A.M. ON THURSDAY, 17TH OCTOBER 1985, or at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England not later than 3.30 P.M. ON WEDNESDAY, 16TH OCTOBER 1985. Tenders will not be revocable between 10.00 a.m. on Thursday, 17th October 1985 and 10.00 a.m. on Tuesday, 22nd October 1985.

Each tender must be for one amount and at one price. The minimum price, below which tenders will not be accepted, is £98.25 per cent. Tenders must be made at the minimum price or at higher prices which are multiples of 25p. Tenders lodged without a price being stated will be deemed to have been made at the minimum price.

A separate cheque representing a deposit at the rate of £40.00 for every £100 of the NOMINAL amount of Stock tendered for must accompany each tender; cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Islands or the Isle of Man.

Tenders must be for a minimum of £100 Stock and for multiples of Stock as follows:—

Amount of Stock tendered for	Multiple
£100-£1,000	[illegible]
£1,000-£3,000	£500
£3,000-£10,000	[illegible]
£10,000-£50,000	[illegible]
£50,000 or greater	£25,000

Her Majesty's Treasury reserve the right to reject any tender or part of any tender and may therefore allot to tenderers less than the full amount of the Stock. Tenders will be ranked in descending order of price and allotments will be made to tenderers whose tenders are at or above the lowest price at which Her Majesty's Treasury decide that any tender should be accepted (the allotment price), which will be not less than the minimum tender price. All allotments will be made at the allotment price: tenders which are accepted and which are made at prices above the allotment price will be allotted in full; tenders made at the allotment price may be allotted in full or in part only. Any balance of Stock not allotted to tenderers will be allotted at the allotment price to the Governor and Company of the Bank of England, Issue Department.

Letters of allotment in respect of Stock allotted, being the only form in which the Stock may be transferred prior to registration, will be despatched by post at the risk of the tenderer, but the despatch of any letter of allotment, and any refund of the balance of the amount paid as deposit, may at the discretion of the Bank of England be withheld until the tenderer's cheque has been paid. In the event of such withholding, the tenderer will be notified by letter by the Bank of England of the acceptance of his tender and of the amount of Stock allocated to him, subject in each case to payment of his cheque, but such notification will confer no right on the tenderer to transfer the Stock so allocated.

No allotment will be made for a less amount than £100 Stock. In the event of partial allotment, the balance of the amount paid as deposit will, when refunded, be remitted by cheque despatched by post at the risk of the tenderer; if no allotment is made the amount paid as deposit will be returned likewise. Payment in full may be made at any time after allotment but no discount will be allowed on such payment. Interest may be charged on a day-to-day basis on any overdue amount which may be accepted at a rate equal to the London Inter-Bank Offered Rate for seven day deposits in sterling ("LIBOR") plus 1 per cent per annum. Such rate will be determined by the Bank of England by reference to market quotations, on the due date for the relevant payment, for LIBOR obtained from such source or sources as the Bank of England shall consider appropriate. Default in due payment of any amount in respect of the Stock will render the allotment of such Stock liable to cancellation and any amount previously paid liable to forfeiture.

Letters of allotment may be split into denominations of multiples of £100 on written request received by the Bank of England, New Issues, Watling Street, London, EC4M 9AA on any date not later than 21st November 1985. Such requests must be signed and must be accompanied by the letters of allotment. Letters of allotment must be surrendered for registration, accompanied by a completed registration form, when the balance of the purchase money is paid, unless payment in full has been made before the due date, in which case they must be surrendered for registration not later than 25th November 1985.

Tender forms and copies of this prospectus may be obtained at the Bank of England, New Issues, Watling Street, London, EC4M 9AA, or at any of the Branches of the Bank of England, or at the Glasgow Agency of the Bank of England, 25 St. Vincent Place, Glasgow, G1 2EB; at the Bank of Ireland, Moyne Buildings, 1st Floor, 20 Callender Street, Belfast, BT1 5BN; at Mullen's & Co., 15 Moorgate, London, EC2R 6AN; or at any office of The Stock Exchange in the United Kingdom.

Government statement

Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, this Stock is issued or sold by or on behalf of the Government or the Bank; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for *compensation*.

BANK OF ENGLAND
LONDON
11th October 1985

THIS FORM MAY BE USED

TENDER FORM

This form must be lodged at the Bank of England, New Issues (C), Watling Street, London, EC4M 9AA not later than 10.00 A.M. ON THURSDAY, 17TH OCTOBER 1985, or at any of the Branches of the Bank of England or at the Glasgow Agency of the Bank of England (25 St. Vincent Place, Glasgow, G1 2EB) not later than 3.30 P.M. ON WEDNESDAY, 16TH OCTOBER 1985.

ISSUE BY TENDER OF £800,000,000

10 per cent Treasury Stock, 2001

MINIMUM TENDER PRICE £98.25 per cent

TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND

I/We tender in accordance with the terms of the prospectus dated 11th October 1985 as follows:—

Amount of above-mentioned Stock tendered for, being a minimum of £100 and in a multiple as follows:—

Amount of Stock tendered for	Mutiple
£100-£1,000	£100
£1,000-£3,000	£500
£3,000-£10,000	£1,000
£10,000-£50,000	£5,000
£50,000 or greater	£25,000

1. NOMINAL AMOUNT OF STOCK £

2. AMOUNT OF PAYMENT (a) £

Amount of deposit enclosed, being £40.00 for every £100 of the NOMINAL amount of Stock tendered for (shown in Box 1 above):—

3. TENDER PRICE (b) £ : p

The price tendered per £100 Stock, being a multiple of 25p and not less than the minimum tender price of £98.25:—

I/We hereby engage to pay the balance of the purchase money when it becomes due on any allotment that may be made in respect of this tender, as provided by the said prospectus.

I/We request that any letter of allotment in respect of Stock allotted to me/us be sent by post at my/our risk to me/us at the address shown below.

SIGNATURE ....
of, or on behalf of, tenderer

..........October 1985

PLEASE USE BLOCK LETTERS

MR/MRS MISS	FORENAME(S) IN FULL	SURNAME
FULL POSTAL ADDRESS:—		
FT	POST-TOWN	COUNTY	POSTCODE

a A separate cheque must accompany each tender. Cheques should be made payable to "Bank of England" and crossed "New Issues". Cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Channel Islands or the Isle of Man.

b The price tendered must be a multiple of 25p and not less than the minimum tender price. If no price is stated, this tender will be deemed to have been made at the minimum tender price. Each tender must be for one amount and at one price.

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FINANCIAL TIMES

Monday October 14 1985

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Terry Byland on Wall Street

Calm in face of adversity

THE THIRD-QUARTER reporting season has only just opened but Wall Street's response to earnings statements from International Business Machines (IBM) and General Electric (GE) might prove a watershed in market viewpoints.

Neither IBM nor GE came down heavily on the side of optimism. The fall of 7 per cent in IBM's third-quarter earnings was at the more pessimistic end of analysts' forecasts. GE's profits matched expectations, but Mr John Welch, chairman, saw "no signs" of any general recovery in the economy.

Yet the stock market, which has been waiting with much apprehension for the flow of corporate results, took the news from IBM and GE with equanimity, showing no sign of distress.

Worries over prospects for corporate results in the second half of the year have been a principal cause for the market's unease since it peaked in mid-July. The market has been able to rise by 11 points on the Dow Jones industrial average in the wake of the first serious test of corporate progress.

The market's satisfaction with IBM can hardly be overestimated. It was IBM's early warnings on profits that did much to destabilise equities early in the year. The flow of bad news from the technology sector, the standard-bearer of the stock market, has continued, with Burroughs and Control Data bringing bad news within the last fortnight.

IBM cheered Wall Street by balancing the expected disclosure of poor profits in the third quarter with two predictions that struck a favourable echo throughout the corporate sector. It forecast "strong fourth-quarter shipments," and said that if the dollar remained at its recent levels, the final quarter would show a "positive effect".

To Wall Street, that sounded very satisfying. Improved corporate profitability in the final quarter of this year is the peg on which much of market forecasting hangs at present. Most forecasters have braced

Company	Price	% off peak
IBM	125⅝	9.4
Merck	109½	6.8
Dow Chem	35⅛	5.4
S&P 500	184.28	6

* Friday close

themselves for some disappointing third-quarter results from U.S. industry, but some sign of recovery in the final three months of the year is crucial if full-year profits are to be no worse than "flat".

Stock in GE strengthened also after IBM's statement, which added teeth to GE's success in cutting costs and expanding profit margins. If the fourth quarter goes well, GE's year-end statement should sound a more bullish note.

But IBM's second comment had even wider significance. The company was the first to disclose, earlier this year, just how badly it was hurt by the strength of the dollar. While prospects for the dollar are still cloudy, IBM's comments were not lost on Wall Street last Friday. Where there were sharp gains in dollar-oriented stocks.

The opportunity for dollar-oriented gains for IBM are clear. According to Smith Barney, the group, with about 40 per cent of its business now international, might pick up a currency translation gain of 13 per cent – or 80 cents a share – in the second half of the year.

That suggests a modest gain in earnings this year, and a larger one to come in 1986. IBM was one of the first big corporations to upset Wall Street by admitting how badly the dollar's strength was hurting overseas sales and earnings.

The reviving effect of the same tonic – a successful fourth quarter and a weakening dollar – was not lost in other market sectors. Pharmaceutical stocks, with more than half their earnings derived from non-dollar markets, were obvious favourites.

Pfizer sprang sharply to life as analysts reassessed earnings prospects. Pfizer's own target of 15 per cent annual increases in profit have been looking uncertain. But, with two thirds of its workforce overseas, Pfizer will be the first to benefit from a lower dollar. Wall Street is likely to restore its 1985 profit forecasts for Pfizer to $3.54, from the $3.50 or even $3.45 of mid-year.

Abbott Laboratories, which also has a strong overseas presence, was another dollar-oriented stock to lead the market at the end of the week. Dow Chemical, Merck and Celanese all stood out for similar reasons.

U.S. stock markets, including the Nasdaq and broad-based NYSE indices, are within easy distance of their peak levels, despite the uncertainties of the past month. If Wall Street continues to receive the corporate profits flow as readily as it did last week, then those peaks will soon be tested.

LIMITING THE DIPLOMATIC DAMAGE OF SHIP'S HIJACK

U.S.-Egypt ties suffer setback

BY JAMES BUXTON IN ROME AND TONY WALKER IN CAIRO

ALTHOUGH the aftermath of the hijacking of the cruise liner Achille Lauro is unlikely to inflict any lasting damage on relations between Italy and the U.S. strains between Washington and Cairo may take longer to mend.

Egypt has been deeply embarrassed, even humiliated, by the U.S. interception of one of its aircraft carrying the four hijackers and two Palestinian leaders. Egyptian officials are privately bitter at American behaviour, which, they say, has paid scant regard to Egypt's complicated position in the Arab world as both a close ally of the U.S. and the only Arab state to have signed a peace treaty with Israel.

There is some alarm in the Government at a surge of anti-U.S. feeling first triggered a fortnight ago by President Reagan's initial endorsement of Israel's raid on the Tunis headquarters of the Palestine Liberation Organisation.

Anti-American sentiment has been reflected in criticism of President Hosni Mubarak. Weekend protesters staged a large demonstration in Cairo demanding an end to the special U.S.-Egyptian relationship, while one prominent writer in the mass-circulation newspaper Al Akhbar said relations with the U.S. had reached a "stage of decline to which no remedy can be applied now or in the future."

Western diplomats say that although Egyptian anger with the U.S. is understandable, both sides have a strong mutual interest in repairing the damage, and they expect efforts in that direction once the dust settles on the affair. They point out that, apart from the two countries' strategic accord against extremist Middle East states such as Libya, the U.S. aid contribution to Egypt of over U.S.$2bn a year is of paramount importance to Egypt, which is suffering from balance-of-payments problems and an increasingly burdensome foreign debt.

Israeli hopes that the affair will result in PLO exclusion from the Middle East peace process were looking well founded last night. At the very least, several weeks of assessment will be needed before there is much chance of a dialogue between U.S. officials and a joint Jordanian-Palestinian delegation, as proposed by King Hussein of Jordan.

The possible need to build new bridges to the PLO will be reviewed over the next few days in Rome, where the Achille Lauro affair has caused widespread bruising to Italy's relations with the U.S., Egypt, the Palestinians and within the coalition government itself.

The U.S. is furious at the Italians' allowing Abu Abbas, leader of the Palestine Liberation Front, to leave Italy after it had requested his arrest pending extradition.

But Italy is on reasonably firm ground in pointing out that Abu Abbas has committed no offence on Italian territory – he was not on board the Italian-registered ship – and played a key role in resolving the hijacking of the ship. Furthermore, if he were to be accused with the other four terrorists, he would, like them, have had to stay in Italy for trial rather than being extradited at once to the U.S.

In practice, the Italian Government, aware of its physical proximity to Palestinian terrorist bases, and receiving veiled warnings from Yassir Arafat, the PLO leader, that he might not be able to control terrorist action against Italy, had little option but to salvage what it could from the wreckage of its relations with the PLO.

Despite the release of Abu Abbas, Italy still risks a vindictive reaction from the PLO and any of its factions at the detention and forthcoming trial of the four hijackers.

How soon the U.S., the interests of which Italy normally supports with little hesitation, will accept the Italian position remains to be seen, but ties between Italy and the U.S. are basically strong and Italy has a chance to impress President Reagan by speeding up the bringing to trial of the four terrorists.

But Italy must also patch up its relations with Egypt, which was in public disagreement with the Italian Government over the terms on which the four terrorists were given a safe conduct.

Yugoslavs reject U.S. plea over Palestinian

Continued from Page 1

great basis of friendship that we have."

The Egyptian Boeing was flown to Rome on Friday night, leaving behind the four terrorists in Sicily and the passengers on board, including Abu Abbas, were transferred to the Egyptian Cultural Institute in Rome. As the Institute has diplomatic immunity, Abu Abbas was already technically off Italian territory.

On Saturday, Sig Bettino Craxi, the Italian Prime Minister, received a message from Mr Yassir Arafat, the Palestine Liberation Organisation's chairman, in which he warned that "uncontrollable events" could occur if Abu Abbas was detained – an apparent reference to possible terrorist attacks on Italy which Mr Arafat would be powerless to prevent.

On Saturday afternoon Abu Abbas was apparently rushed in an Egyptian embassy van with diplomatic immunity to Ciampino airport where the Egyptian Boeing took him on the short flight to the main airport at Fiumicino. He was hurried aboard a Yugoslav Airlines flight leaving for Belgrade.

The four terrorists who hijacked the ship are in prison in Syracuse where they have been charged with murder and hijacking after their positive identification by some of the victims of the hijacking. These include Mrs Marilyn Klinghoffer, widow of the 69-year-old American Jew who was shot on board the ship. Mrs Klinghoffer said afterwards that she had spat in the faces of the terrorists.

President Reagan sent a personal message to Egypt's President Hosni Mubarak, in an effort to heal the breach in relations. On Saturday, the Egyptian leader accused the U.S. of piracy after its use of military aircraft to force down the EgyptAir airliner carrying the four hijackers.

Mr Nicholas Veliotes, the U.S. ambassador to Egypt, yesterday made a long public statement, praising Egypt's role in bringing the hijacking to an end.

Offer for Revlon raised

By William Hall in New York

REVLON, the cosmetics and health care group, took steps over the weekend to stem mounting criticism on Wall Street of its complicated plans to go private and split itself up in order to avoid a hostile $1.7bn takeover bid from Pantry Pride, the Florida-based supermarkets group.

The company announced yesterday that Forstmann Little, the New York-based investment partnership which specialises in leveraged buyouts, had increased its offer for the group to $57.25 a share cash valuing the company at $1.8bn. It also announced that it had given Forstmann Little an option to acquire two of its most valuable businesses if a rival bidder bought more than 40 per cent of Revlon's shares.

Forstmann Little's latest offer, which has been backed by Revlon's board, comes less than a week after Pantry Pride increased its bid for the third time, to $56.25 a share – 25 cents a share more than Forstmann Little's first offer.

Revlon also announced plans to issue higher yielding paper to replace the $475m of senior subordinated notes that it issued in August when it was buying back more than a quarter of its shares in order to escape Pantry Pride. After Revlon's announcement on October 3 that it planned to go private its bonds slumped on Wall Street.

In addition, Mr Michel Bergerac, Revlon's chairman, has dropped plans to take an equity interest in Revlon's profitable health care operations, regarded by analysts as the best part of the group's business.

The structure of the three-part deal remains unchanged. Forstmann Little will buy the group for $1.8bn. It is investing $445m of its own capital in the deal and will sell the traditional cosmetics business and the Revlon name for $900m to another New York investment group, Adler & Shaykin, and its Norcliff Thayer and Reheis chemicals businesses to American Home Products.

General Motors plans $500m expansion of Brazilian unit

BY ANDREW WHITLEY IN BRASILIA

GENERAL MOTORS do Brasil a wholly-owned subsidiary of the U.S. car maker, is to spend $500m in plant modernisation and expansion in Brazil in one of the largest investments ever made by GM outside the U.S. According to Mr Clifford Vaughan, president of the Brazilian subsidiary, the investment programme could go as high as $1bn by the end of the decade.

The funds needed would be raised entirely by the Brazilian subsidiary, he said. "There won't be any money from the U.S. as we consider GM do Brasil's debt today of $200m to be low."

Although Brazilian car sales have in recent months been growing strongly, and exports are running at record levels, the announcement nevertheless came as a surprise. The local vehicle industry as a whole still has considerable unused capacity, with production running well below the peaks reached in 1979 and 1980.

The bulk of the new investment, about $400, is destined for the local production of the Kadett, the acclaimed sub-medium car of which a new version was launched in Western Europe last year. The Kadett is expected to be on the roads in Brazil in early 1988.

By 1990, annual production of the Kadett in Brazil is forecast at 60,000 units, with two-thirds destined for the domestic market, and the remainder earmarked for export to GM do Brasil's traditional markets elsewhere in Latin America.

About $100m is being allocated to the introduction of computer-aided design and manufacture systems, and the automation of parts of the assembly line.

GM do Brasil, which has recently had a runaway success in the local market, with its Monza "world car," is using the new Kadett model, as part of an aggressive strategy aimed at increasing its Brazilian market share to 29 per cent. Volkswagen, the market leader, holds a 35 per cent share, down from 45 per cent only four years ago.

Chinese broker starts business

Continued from Page 1

But other formal obligations are few. For example, rules against insider trading, or on making price-sensitive information generally available if it is likely to be available to some, do not exist.

Mr Zhou nevertheless insists that he is aware of the implications of his change of status: "I know that if I run the company badly, I have to answer to 18,000 people, not just the 2,000 employees. This is a heavy responsibility," he said.

The Jinjiang Trust Company will for the time being be feeling its way, with rules being introduced as a need becomes clear. In formal terms, it sees itself merely as a "matchmaker" between individual share buyers and sellers. At present, trade in shares is small. Many have shown interest in buying stock, but present shareholders have shown little interest in selling – which is no doubt one of the reasons why share prices have begun to rise.

Daimler and AEG boards back link-up

BY JONATHAN CARR IN FRANKFURT

A HUGE West German industrial deal linking Daimler-Benz, the vehicles manufacturer, and AEG, the electricals concern, was approved this weekend by the supervisory boards of both companies.

It is believed that under the deal Daimler has probably taken a majority stake in AEG, but details will not be disclosed until a press conference in Stuttgart today.

A majority holding in AEG would cost Daimler more than DM 1bn ($385m) and would create the country's biggest industrial enterprise, with a turnover of close to DM 60bn.

The action follows suspension of trading in AEG shares on Friday after they had reached a peak of DM 182 – compared with a low this year of DM 100.

Soon afterwards, the cartel office in Berlin indicated that Daimler would formally notify it this week that it had taken a stake of more than 25 per cent in AEG. How much more was not disclosed.

Banking sources noted that Daimler's past strategy indicated that it would be unlikely to rest content with a minority holding. Already this year the Stuttgart vehicle maker has acquired full control of MTU, the engine manufacturer, and a majority in Dornier, the aerospace concern, for a total sum estimated at about DM 1bn.

That AEG is the object of buyer interest at all is a tribute to the comeback it has made in the last year or two. The company met the terms of a *Vergleich* (composition proceedings) last autumn, under which it was freed from 60 per cent of its debts but had to pay back 40 per cent.

Last year AEG recorded operating profits of DM 100m and cut its net financial liabilities to DM 849m from DM 1.8bn in 1982. Recently it changed its name to "AEG" from "AEG-Telefunken," to emphasise that it had sold off its loss-making video and audio subsidiary (to Thomson of France).

Men and Matters Page 16; Analysis, Page 21

World Weather

		°C	°F
Ajaccio	S	24	75
Algarve	S	23	73
Algiers	F	25	77
Amsterdam	S	15	59
Athens	F	21	70
Bahrain	S	34	93
Bangkok	R	28	82
Barcelona	S	26	79
Beirut	F	22	72
Belgrade	F	14	57
Berlin	F	13	55
Biarritz	S	21	70
Blackpool	S	15	59
Bordeaux	S	25	77
Brussels	S	13	55
Budapest	–	—	—
B. Aires	–	—	—
Cairo	C	24	75
Cape Town	F	18	64
Caracas	S	27	81
Casablanca	–	—	—
Copenhagen	F	11	52
Corfu	T	17	63
Dublin	C	15	59

		°C	°F
Dubrovnik	S	22	72
Faro	S	24	75
Florence	S	23	73
Frankfurt	S	12	54
Funchal	F	23	73
Geneva	S	16	61
Gibraltar	S	24	75
Guernsey	S	15	59
Helsinki	C	8	46
H. Kong	S	30	86
Innsbruck	S	13	55
Inverness	C	14	57
Istanbul	S	18	64
Jersey	S	15	59
Jo'burg	S	24	75
Las Palmas	S	27	81
Lima	S	19	66
Lisbon	S	25	77
Locarno	–	—	—
London	S	16	61
Los Angeles	S	26	78
Luxembourg	S	10	50
Madrid	S	23	73
Majorca	S	26	79

		°C	°F
Malaga	S	25	77
Malta	–	—	—
Manila	S	33	91
Miami	C	30	86
Milan	S	21	70
Moscow	R	6	43
Munich	S	11	52
Nairobi	F	26	79
Naples	F	24	75
New Delhi	C	30	86
New York	C	15	59
Nice	S	24	75
Oporto	S	30	86
Oslo	C	6	43
Paris	S	14	57
Prague	S	10	50
Reykjavik	R	6	43
Rio de J'o	C	28	82
Rome	S	26	79

		°C	°F
Salzburg	R	11	52
Seoul	S	19	66
Singapore	F	29	84
Stockholm	S	7	45
Strasbourg	S	13	55
Sydney	R	13	55
Taipei	S	32	90
Tangier	F	28	82
Tehran	–	—	—
Tel Aviv	F	25	77
Tenerife	–	—	—
Tokyo	S	28	82
Toronto	R	11	52
Tunis	F	26	79
Valencia	S	27	81
Venice	F	20	68
Vienna	F	13	55
Warsaw	C	8	46
Zurich	S	14	57

Readings at mid-day yesterday:

C–Cloudy D–Drizzle F–Fair Fg–Fog R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Early poll lead for coalition in Belgium

Continued from Page 1

any region. The final disposition of seats is worked out only after complex mathematical calculations on the basis of strict proportional representation. Voting in Belgium is obligatory and the early returns indicated a poll of around 95 per cent, with around 8 per cent of the votes spoiled.

Of the 113 seats held by the Christian Democrats and Liberals, 38 had been held by minority and regional parties. Analysts were quick to see from the earliest results that Belgians were tending to stick to the traditional political groupings – Christian Democrats, Liberals and Socialists.

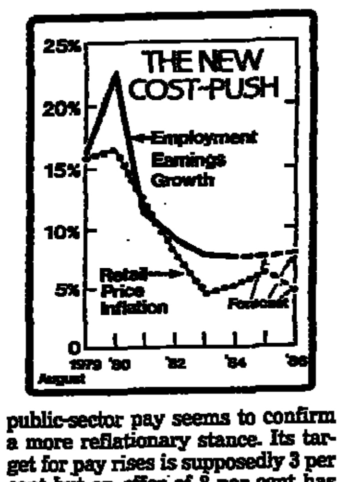
That eliminates the possibility of a significant electoral breakthrough by the Greens and damaging the position of the Volksunie, which had 20 seats in the outgoing legislature and went to the polls on a policy of more autonomy for Flanders.

If the voting trend is maintained, it would amount to a cautious vote of confidence in the economic restraint policies of the fifth Martens government

THE LEX COLUMN

Rising damp at Mansion House

As Mr Nigel Lawson, the UK Chancellor of the Exchequer, stands up to speak at the Mansion House dinner in London on Thursday, City analysts will be hoping for an explanation of the Government's recent monetary policy, if not a new set of monetary targets. Not only is sterling M3 embarrassingly wide of its target range; the Government has done precious little in the last three or four months to tempt it back.



Traditionally, the Bank of England has controlled a wayward sterling M3 by selling more gilts to the non-bank private sector than it needs to. Since the late summer, this tactic seems to have been dropped, with the effect that the PSBR has been seriously underfunded in the last two banking months. As a result, perhaps, the annualised growth rate of sterling M3 over the last six months has been 18½ per cent – more than twice the maximum officially approved rate.

Underfunding

The underfunding could, of course, be accidental – or at least not part of any great Treasury plan. Perhaps the Bank wants to see some natural wastage on the holdings of commercial bills it has built up as a result of past overfunding. But the bill mountain is an irritant at worse; a mere molehill compared with inflation. So it would be odd for the Government to allow broad money to grow this fast purely to reduce friction in the money markets.

It could instead be a policy of creeping reflation. That may not be as direct as spending money on the sewers, but expanding real monetary growth will eventually inject spending power into the economy; and by encouraging spending by private individuals and institutions rather than the state, it suits the Government's book.

After the sharp rise in interest rates – and later the exchange rate – at the beginning of the year, Mr Lawson may well have been worried that the economy would run out of steam in the run-up to the next election. Now that the exchange rate seems to have found its niche at a more sensible level against the dollar, perhaps he is turning his mind to the creation of jobs through stimulating the economy.

The Government's attitude to public-sector pay seems to confirm a more reflationary stance. Its target for pay rises is supposedly 3 per cent but an offer of 8 per cent has been made to local-authority manual workers, and other employees, such as policemen and firemen, should be winning awards of 7 to 8 per cent. Public-sector earnings have fallen well behind the private sector and the Government seems relatively happy to allow catch-up settlements this year.

All this will boost public spending, although at least some can be delayed until after next year's budget. Meanwhile, the Government may have to scratch around to find the £2bn to £3bn it wants for tax cuts. Oil revenues are now likely to be around £3bn less than was projected earlier this year, and higher-than-expected revenues from income and corporation tax will probably take up only £1bn of the shortfall. On the spending side there could easily be an overshoot of up to £3bn.

The Government can be perfectly justified in dipping into the contingency reserve to help balance its books – after all, it earned more than it expected from oil last year and used the money to replenish its reserves for just such a rainy day. But the rest may have to be found from asset sales, which could rise from a projected £2bn to as much as £3.5bn. If the Government is easing the pressure on the gilt market by underfunding, maybe the plan is to ensure that institutions have enough money to mop up a heavy flow of privatisations in the equity market.

It may seem rather premature to be speculating about pre-election reflation. But on the assumption that the date is to be autumn 1987 and that reducing unemployment is the government's top priority, now is probably the time to start. Creating jobs through economic growth rather than specific programmes is a time-consuming process and a two-year lag does not seem excessive.

But the Chancellor's main constraint must be inflation. Having promised so often to keep inflation under control, it would be extremely embarrassing to go into the next election with a rate no lower than today's. Yet with money and wages growing so fast, he may have a hard task on his hands.

Wage settlements have shown no sign of slowing, even though inflation will moderate in the short term once the effects of the weak pound and high mortgage rates have washed through the system. Corporate profitability is high and the share of wages in national income since 1982 (when unemployment more-or-less stabilised) has been falling at the expense of profits. So private-sector employees are trying to win back what they have lost to their employers, while the public sector wants to catch up with the private sector.

Earlier this year, the Government seemed to be using the twin weapons of high interest and exchange rates to concentrate companies' minds for the wage round. Employers were presumably supposed to threaten more redundancies in order to keep wage costs in check. But now that sterling has fallen against the D-Mark, the margin pressure has lessened and with it the reluctance to pass wage increases on in higher prices. The Government must hope to be bailed out by lower import and commodity costs, which could again allow companies to grant higher wage settlements without raising prices or eating into profit margins.

Room for error

When Mr Lawson sits down for his coffee and brandy, he can at least console himself with the fact that he has some room for error. Although boosting employment takes a long time, controlling inflation is a quicker thing altogether. If the worst happens and prices take off in a year's time, he can at least try to bring down inflation by tightening the monetary reins; and any adverse effect on jobs might not come through until after the election.

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SECTION III

FINANCIAL TIMES SURVEY

Arab Banking

Banks in the Gulf have been put under pressure by several large companies rescheduling their debts and the refusal of many small businesses to repay loans. Adequate provisions for this have yet to be made. When they are they will severely curtail profits

Problems multiply as recession bites harder

By MICHAEL FIELD

THE GLOOMY predictions made about Arab banking in 1984 have come true in 1985. The only surprise has been the speed of acceleration of the recession.

Oil revenues have fallen spectacularly. Saudi Arabia this summer was exporting only a tenth of the oil it was in 1981. The Saudi Government and governments in the Gulf have ruthlessly curbed their spending. They have reduced subsidies, stopped work on projects—or are spinning out their execution—and are delaying payments to contractors.

The help they give to the Baghdad government in the Iran-Iraq war has continued to be a drain on their treasuries. And, the hostilities are preventing the traditional re-exports of the Gulf states to these countries.

In Kuwait the problems have been increased by many still unresolved Souk al Manakh debts, incurred when the state's unofficial stock exchange crashed in the autumn of 1982 leaving investors with US$92bn of nearly worthless post-dated cheques they had given to each other.

In the United Arab Emirates the system is suffering from the previous lax control of the authorities, who allowed banks to lend too much to their own shareholders, which in turn contributed to many institutions becoming insolvent. In recent months the authorities have at last been forcing banks to merge.

These developments together have produced a deep recession. Importers have been caught with stocks which can only be sold at a loss. Retailers have been hit by the fall in the expatriate population, and property owners have found their buildings unlettable.

Contractors who have been using the advance payments on one contract to finance overspending on the previous contract have suddenly found themselves unable to complete their work or repay their bank loans.

A chain of debt has evolved in which A says he will pay his bank when he is paid by B, and B says he will pay A when he receives his money from C. And so on.

The problem is that the ultimate debtor, E, may be bankrupt, though nobody will admit this. Or, at least, he may have no saleable assets in the Arabian Peninsula, and no intention of withdrawing the few tens of millions he has abroad, to pay his creditors. He will be hoping that, ultimately, his government will bail everybody out, as Arabian governments have often done in the past, or if he is sufficiently sophisticated, will be pinning his faith on an upturn in the oil market in the 1990s.

The chains of debt are causing commercial confidence to ebb. The Arabian peninsular economies are winding down, and even people who would like to repay their debts are not generating the new cash flow which will enable them to start.

The result, as a banker in London put it recently, is that nobody knows who is rich and who is poor any more, or who eventually is going to go bankrupt and who will survive."

There have already been a few well publicised collapses, and several big and respectable companies in Saudi Arabia have had to reschedule their debts.

Much more important from the point of view of the banks is that many small traders and contractors have simply stopped doing business, and are saying that they cannot repay their loans at all. In Saudi Arabia if any organisation—be it a Saudi bank or a Bahraini offshore bank—sues a debtor it will certainly lose any interest due to it and any interest it has already received. In Shariah (Koranic) law interest is regarded as usury and prohibited.

In both the Kingdom and the United Arab Emirates, banks have difficulty in getting court judgments for the repayment of principal enforced. Well-connected debtors may simply ignore the judgments.

The problems of banks in Saudi Arabia have sometimes been made worse by banks outside the country—notably American banks in Bahrain acting on the instructions of their head offices—pulling lines of credit given to solvent companies.

Different reactions

In these cases companies that have not been in difficulties find themselves having to approach their other banks for bigger lines, which may not willingly be given. The practice then is for the companies to talk to their remaining banks as a group and negotiate a general reorganisation of their debt.

What is interesting to anyone who visits the area is that the reactions of the different governments to the recession have reached different stages.

In Saudi Arabia, there is still no official acknowledgment of the seriousness of the banking problem. Even though company finance directors and senior bank executives may be worrying intensely about it, the banks are still pretending that they are making profits . . . the government is saying nothing.

Bankers say that they would like the government to take the system of interest and loan security, "by the scruff of the neck," as one of them put it recently. But, in reality, unless a disaster occurs and the Government is forced to think the hitherto unthinkable, there is not a chance of such sacrilegious reform.

In Bahrain a different situation prevails. The Government is worrying too much about the future of the island's 75 offshore banks which have established offices in the last 10 years to lend exclusively to clients outside.

The offshore banks are probably less exposed to bad debts than the Saudi banks.

It may be now that some of the banks will leave the island—only three have gone so far—because they judge that there is not enough business in Saudi Arabia to warrant their staying. But assuming that these are the smaller institutions, the departures will not, in themselves, harm the island's position as a banking centre.

Bahrain is threatened more by the general decline of Middle Eastern business and changes in the pattern of world banking which are working against offshore centres.

It may be that the offshore banking unit concept of the island is a bit out of date and that banks there will have to change the type of business they do, but the question of bank departures in itself is not important.

Finally, in Kuwait the Government and the business community are beginning realistically to face their problems. In the accounts to be drawn up at the end of this year the process of writing off bad debts will begin seriously. The banks will declare, or at least distribute, no profits, and they will probably do the same next year.

The Government has made it clear that it will support the banks but will not underwrite the capital of the existing shareholders. Indeed, the Kuwaiti National Assembly in its present mood will not permit the use of public money for this purpose. The unofficial principle of governments in the past 30 years which has stated that "Kuwaiti citizens must not be allowed to lose money" no longer applies.

In this respect it is an enormous advantage for the state that it is, to a great extent, a democracy. Instead of the Ruler having to worry, as every other ruler in the area is worrying, about how his people will react when he tells them that they will have to pay for their past recklessness, the Kuwaiti business community and National Assembly have themselves decided they will have to suffer.

Encouraging signs

Despite the seriousness of the problems of the region as a whole, it would be wrong to give too pessimistic a picture of the Arabian economies.

Oil revenues may already have hit their lowest point, though it is equally possible that there will be a price cutting war this winter in which the drop in revenues per barrel will temporarily more than offset any increase in the volume of output.

If government revenues increase at all this will trigger an upturn, for which there are already some encouraging lead indicators.

The problems of excess stocks are now mainly past. It is not too difficult to find examples of companies that have shrunk their operations and cut their costs . . . and in 1985 are making increased profits on lower turnovers.

There are even companies that are taking advantage, of the enormously reduced costs of operations and the disarray of their competitors, to invest. As these institutions say, they are part of the Arabian market whether they like it or not and they have to think of the future.

Ultimately they also believe that when the recession does bottom out and the authorities come to face the problem of debt, there will be some public money made available to see that the most imporant institutions, particularly the banks, remain solvent.

This announcement appears as a matter of record only.

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Credit Lyonnais
Manufacturers Hanover Limited
Alahli Bank of Kuwait K.S.C.
Arab Banking Corporation (ABC)
Bank of Bahrain and Kuwait B.S.C.
Banque Paribas
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Bank of Bahrain and Kuwait B.S.C.
Banque Paribas
The Commercial Bank of Kuwait S.A.K.
Gulf International Bank B.S.C.
National Bank of Bahrain B.S.C.
UBAF Arab American Bank
Union de Banques Arabes et Francaises
- U.B.A.F. Bahrain Branch
Banque Indosuez (OBU) Bahrain
Credit Agricole
Bahrain Middle East Bank E.C. (BMB)
The Industrial Bank of Kuwait K.S.C.
National Bank of Abu Dhabi, Abû Dhabi
Jordan Investment and Finance Corp.
Alahli Bank of Kuwait K.S.C.
The Arab Investment Company S.A.A.
Banque Nationale de Paris
Burgan Bank S.A.K., Kuwait
Credit Lyonnais/Gulf Riyad Bank E.C.
Manufacturers Hanover Trust Company
UBAE Arab German Bank
Société Anonyme
UBAF Bank Limited
Al Bank Al Saudi Al Fransi
(The Saudi French Bank)
Société Générale (Paris), Bahrain Branch
Bank of China, London Branch
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ZEEADS

Market potential remains

Project and Trade Finance

CAROLINE MONTAGU

EXPORTING TO the Middle East has taken on board a range of fresh difficulties as more markets move from being cash to credit. Exporters are never short of complaints about the exercise of their business but now with payment delays in previously sure markets, such as Saudi Arabia, their litany of woes is more strident.

At the same time a number of major corporates still say that despite domestic revenue cuts and the end of the boom years the Middle East remains the export market with the most potential.

Payment delays are now a feature for much more Middle East business. Reasons for these delays can stem from genuine shortages in countries traditionally lacking enough foreign exchange but on public sector contracts governments appear to be deliberately sheltering behind their slow moving bureaucracies.

This holds as true in Saudi Arabia as it does in Egypt. However, Egypt has greater foreign exchange needs than it has resources to generate it. On the same argument, a slowdown at present in business activity in Egypt would make good sense as it would allow changes to be made and absorbed and keep indebtedness at a manageable level.

Payment problems in Libya, however, appear variable and are frequently attributed to Colonel Gadhafi's unpredictability.

Payment delays in countries with previously good records, such as the Gulf and Saudi Arabia, reflect their much lowered government receipts, but international companies take a fairly sanguine view even of this situation. They argue that the Middle East, with the exception of Morocco, has always honoured its debts and quote Iraq's problems in 1982-83.

At the time, it asked creditors for a delay in payments and then honoured the subsequent arrangements.

Faced with increased credit and market uncertainty exporters and contractors are working overtime to minimise their risks but secure their contracts.

For contracts with the Middle East oil exporters barter or countertrade is becoming more and more frequently a feature. The recent UK/Saudi Arabian $4bn deal to sell Tornado and Hawk combat aircraft contains, it is understood, some percentage of the payment in oil. The contract is further complicated by training requirements demanded by the Saudis and may also have an element of offset investment built in.

If there is a substantial countertrade deal in the Tornado contract, it will rate as one of the biggest barter deals ever. The offset investment requirement, on which no details yet exist, may involve investment by UK companies in industrial or service ventures in the Kingdom.

The precedent for this in Saudi Arabia has already been established in the U.S./Saudi contracts on the multibillion Peace Shield defence system. The successful contractors, Boeing and General Electric, have had the greatest difficulty in identifying potentially profitable investments in Saudi Arabia and in the end opted for service, not industrial, ventures. However, the concept of offset investment in major deals is here to stay.

Arab countries have also observed Turkey's successes in offset investment and then counterpurchase on the U.S./Turkish defence contracts.

Countertrade in oil for goods and projects is now nothing new in the Middle East. Iraq, Iran, Libya and Algeria are the main operators. Its use is not restricted to contracts in the direct supply of goods and services; it can be used to complete or guarantee project financing.

In bidding last year on an Algerian infrastructural project one tenderer's willingness to take the full foreign exchange component of the deal in oil gave him a head start. Most oil tied to countertrade deals comes from members of the Organisation of Petroleum Exporting Countries; at the end of 1984 the volume was roughly estimated at 2.5m barrels a day, compared with 1m b/d in 1982.

tracts.

Exporters in the supply of normal goods and commodities are searching out or resurrecting more secure techniques to lower the credit risk beyond the use of normal documentary credits. In Iraq, where letters of credit are normally unconfirmed, exporters are resorting to getting "silent confirmation" from their own banks.

Among techniques in the fore are factoring, invoice discounting and forfaiting, which is being used for a far wider range of goods than traditionally. Forfaiting, a form of non-recourse financing for the supplier, has been used across the Middle East, though it is not officially permitted in Algeria, where forfaiting deals have to be conducted with great discretion.

The biggest market is Egypt where the private joint venture banks have the best reputation as guarantors, as the state banks have problems with government currency regulations.

Finding banks that can take risk on Middle Eastern countries is one of the biggest headaches for exporters. As this varies on a virtually daily basis exporters spend considerable time and energy in finding a bank with credit lines open for high risk Arab countries. They see the need for further development of export finance brokers and clearing houses.

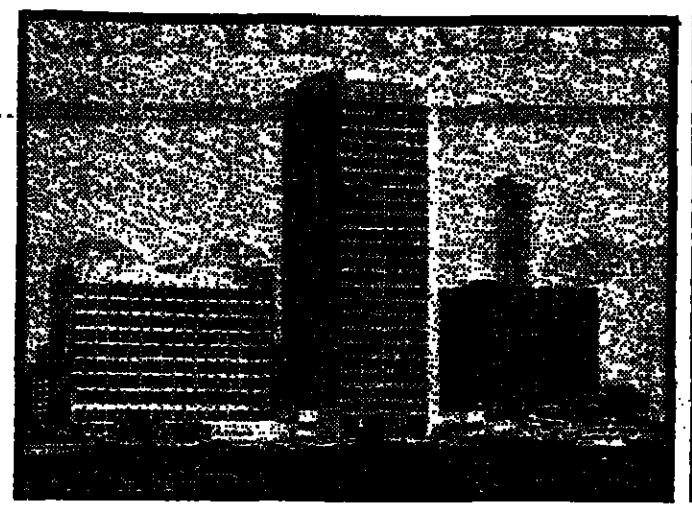
The same difficulty exists in developing medium-term financing packages for the Middle East. Long standing borrowers are finding it hard to get credit and new countries are joining the credit queue.

In 1982 one of the major U.S. process engineering companies was asked to his surprise to produce a financing package for a project in one of the Gulf states. Now this has become a matter of course.

The contract for Luberef II, the Mobil-Petromin lube oil refinery in Saudi Arabia, went to a Japanese consortium because of the long, soft terms of their financing package.

In the area of medium-term project finance another problem contractors face more frequently is the absence of government guarantees. Now even when government or public sector agency guarantees are available, their value has gone down.

The quality of collateral within the commercial banking sector of Saudi Arabia is under serious discussion at present. Its quality is impaired by a real questionmark over whether within the Muslim environment of the Kingdom it can ever be called.



FAR LEFT: The Arab Bank for Foreign Investment and Trade in Dubai. LEFT: The Bank of Credit and Commerce International and the Arab Monetary Fund buildings on the Corniche. Banks throughout the Gulf are no longer finding the types of business they were established to handle and are therefore being forced to reassess their role

Reassessment of role to be played

Arab Banks in International Markets

MICHAEL FIELD

ALL ARAB banks, like most banks elsewhere in the world, are having to reassess their role in life. Many of them, Arab bankers say, have now lost their raison d'etre. They are no longer finding business opportunities in the types of finance which they were established to practice and seem to be fulfilling no useful role.

Nevertheless, despite the universality of these comments, it is very difficult to find any institution which admits to being a lost Arab bank.

The origin of the banks' problems goes back to the mid- and later 1970s. At that time many Arab commercial banks, investment banks, and investment companies were established with almost the sole aims of financing Middle Eastern imports and taking slices of syndicated loans. Their bases were London, Paris, Kuwait and Bahrain.

In the United Arab Emirates a further group of banks was set up with the primary objective of lending for the trade and investment of their owners.

All of the banks were pampered. The Gulf governments and government institutions were easy customers, both as subscribers to the loans in which the banks were involved, and, later, as borrowers.

Many of the new banks developed businesses based almost entirely on borrowed funds and dealings with institutions.

In the UAE, admittedly, the situation was somewhat different, in that the banks did deal with individuals. There the pampering came in the form of lax central bank supervision, which allowed growth based on banking practices which would have been illegal elsewhere.

The new banks in London, Kuwait and Bahrain neglected to develop good local markets for themselves, either in individual customer deposits or in placing paper with private investors.

While the local banks were neglecting opportunities for dealing with private businessmen, the bankers and stockbrokers of Europe and the U.S. were visiting the Gulf and developing precisely these links.

The position was summed up recently in a talk given by Tony Asselly, of Schroder Asselly, to the Arab Bankers' Association in London.

"We missed . . . an opportunity to develop a truly regional capital market," he said. "When I speak of (this) I do not refer solely to a market where Arab borrowers borrow or raise equity funds in Arab markets, though this is an important aspect of it.

"What I mean is a market that has depth, that is widely based and where the supply of services and financial instruments constantly changes to adapt itself to demand."

Assely and all other Arab bankers ascribe the failures of the later 1970s and early 1980s to the great shortage of Arab manpower in banking, which lead to a lack of vision. The expertise of almost all Arab banks is still confined to syndicated lending, trade finance and contractors' guarantees.

In the past two years their narrow expertise has caused the Arab banks to suffer. Trade with the area has fallen and lending within the Arabian peninsula has become hazardous.

Those banks that have Arabian deposit bases — the original domestic commercial banks of the area—have cheap enough funds to be able to make money on the markets but those that have to borrow have to lend to customers if they are to make an adequate margin.

In Saudi Arabia and the Gulf a great many corporate customers and small businessmen are potential bankrupts or are liable to default on their loans and escape without paying interest.

At the same time, the syndicated loan market has contracted. If one excludes from the totals merger financing in the U.S., note issuance facilities and fresh financing for Latin American governments, the market fell from $96bn in 1981 to $59bn in 1984.

The participation of Arab banks as lenders in this market fell from 11.4 per cent in 1983 to 6.3 per cent in 1984, mainly because of the decline in borrowing by the Arab governments and private sectors.

These changes in the markets recently caused Hikmet Nashashibi, the former chief executive of the successful Al Mal Group in London to say in an interview: "We (the Arabs) put a lot of effort into building a whole structure which has become obsolete. It is like an oil refinery which is turning out the wrong products."

The question now is what will become of the new banks. The managing director of a small Arab bank in London said last month that of the original ideas which had caused his bank to be established only one—the bank's role as a deposit haven,—was still valid.

He went on to concede that some small banks (though not his own) would do better to close down and release their shareholders' capital for other purposes.

It is possible that the international trend towards bank mergers and the absorption of consortia banks by one or two of their shareholders, as has happened at FRAB Bank International in Paris, will be copied in the Middle East.

There have already been a number of mergers in the UAE in the past 12 months, though these have been prompted more by the extreme weakness of the banks that by a reassessment of their roles.

Those banks that remain have to develop new businesses as is emphasised elsewhere in this survey.

In London and Paris small Arab banks are talking of penetrating bits of the corporate market which are too small for the big banks, even though this will require a more "hands on" approach by banks that have a reputation for lacking strong management.

In all centres Arab banks are talking of developing fee income, though as yet very few banks have done well in this. The most notable exception is Banque Arabe et Internationale des Investissements (BAII) in Paris. BAII has organised acquisitions and established itself in the securities business in London and New York.

In theory there is a fee earning opportunity for Arab banks in the fast-growing international bond market, which this year is expected to total over $100bn, compared with $[illegible]bn in 1981. The opportunity will materialise if Arab Governments, and other potential Arab clients, feel confident enough to want to borrow and follow the global trend towards securitisation of borrowings.

Bond issues, admittedly, are more difficult to manage than syndicated loans, but Arab banks should be helped by their special relationships with Arab Governments.

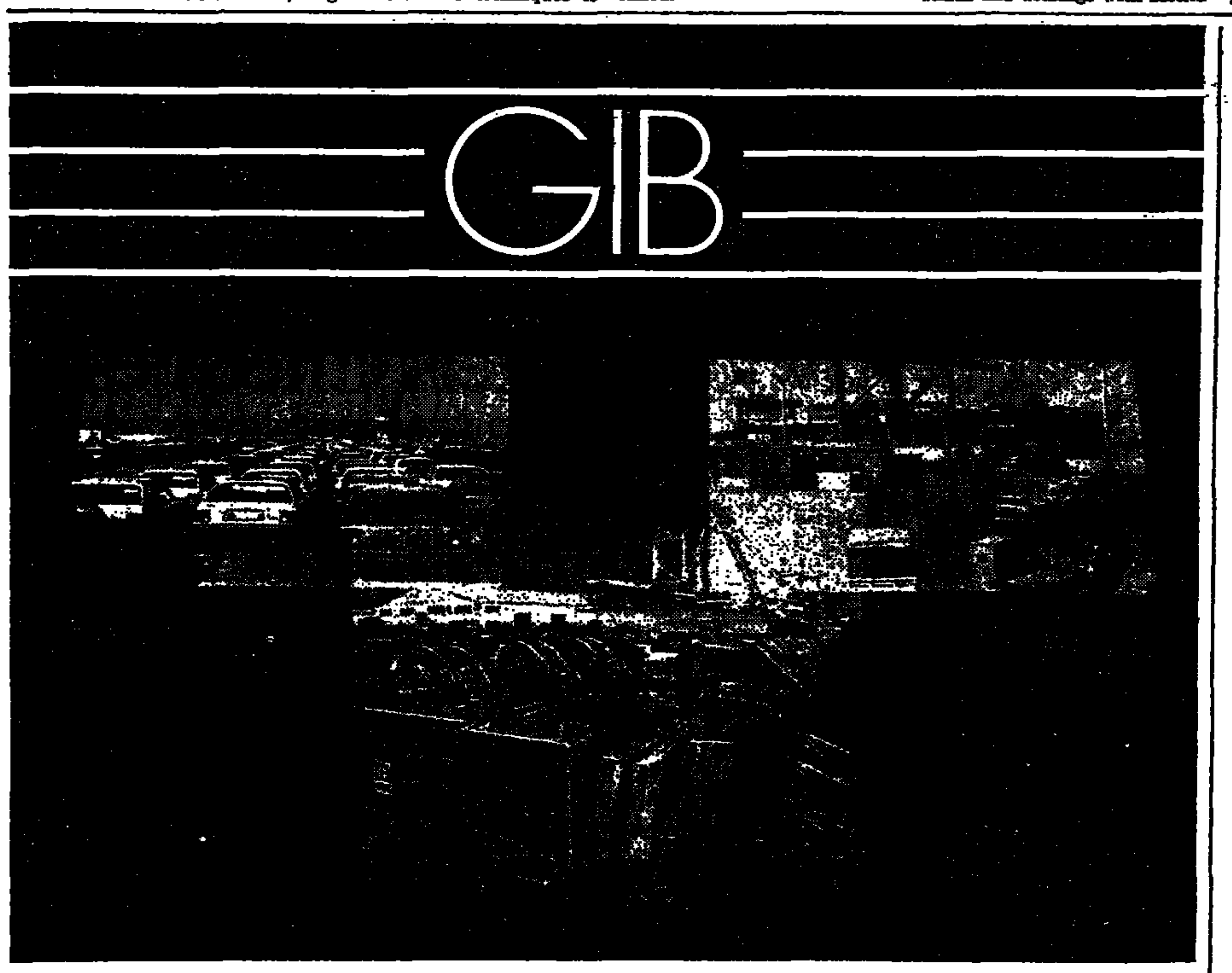
At the same time as they diversify it seems logical that Arab banks will become more involved on the ground in centres outside the Arab world.

In doing this some will be following their Arab clients as they invest abroad and need merchant banking services abroad. The Lebanese Banque Audi, for example, has recently opened a representative office in Miami though most branches are in less exotic locations.

Other institutions—the traditional Arab commercial banks—will find themselves with increasing deposits at home, caused by the rundown of local businesses and the declining demand for inventory, and will establish offices in London and New York for treasury business.

This is the purpose of the new branch of the National Commercial Bank in London, which is to start work at the beginning of 1986. It is assumed NCB will become the centre of the London Saudi riyal market.

Finally, there will be banks which will go abroad to look for customer deposits. These institutions, such as the Arab Banking Corporation, which has bought a substantial Spanish bank, will not be following existing clients or looking for any Arab business at all. They will be seeking to add an entirely new element to their balance sheets.



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Faced with need to diversify

Bahrain Offshore

MICHAEL FIELD

SPECULATION is widespread over the future of Bahrain as an offshore banking centre, with the Bahraini Government itself partly responsible for fuelling it.

The problem is not that the Government has made serious mistakes in its handling of the banks since the offshore licenses were dreamed up exactly ten years ago, though some bankers say that the Bahrain Monetary Agency left the banking community in the dark for too long about what was happening at the Arab Asian Bank at the end of 1984. The bank lost its capital and was subsequently taken over by the Bin Mahfouz family of Saudi Arabia.

Other critics now say that they would like the BMA and the Saudi Arabian Monetary Agency to come up with a statement on how they see Bahrain evolving during the next five years—but given the economic uncertainties of the region and Sama's reticence this is whistling in the wind.

Where the Bahraini Government is going wrong is in being too defensive, reacting too strongly to press comments which seem to it to be pessimistic. Great publicity, on the other hand, is given to any bank's statement that it believes in the future of Bahrain.

There are mutterings, too, that banks which leave Bahrain will regret it when "the economic upturn" comes in the 1990s.

There is no doubt that the Bahraini offshore market is shrinking. "To say it's a period of consolidation would be an understatement," a very honest official remarked recently.

The lending and bonding business in Saudi Arabia, which sustained the growth of the market in its first eight years and may have accounted for over half of the offshore banks' profits is more or less dead. At the same time the expansionary banking of the 1970s—involving big syndications based on borrowed funds—is out of vogue. Banks are talking of customer deposits and customer lending. They are becoming more conservative and more concerned with their home bases.

These trends are working against Bahrain, but the practical results so far have not been very serious. The assets of the offshore system remained fairly steady in 1984, at around $59bn to $62bn, and in the first half of this year fell to $57.2bn.

Business in the Saudi riyal exchange market, which has always been one of the major money market operations on the island, has fallen hardly at all, despite the growth of a riyal market in London and the decline in demand by foreign contractors in Saudi Arabia. One reason for the activity is that Saudis are speculating on further small devaluations of the currency.

Only three offshore banks, out of a peak total of 78, have withdrawn from the island. These have been Continental Illinois, which closed its office as part of a global retrenchment, Security Pacific and Banco Comercio e Industria de Sao Paulo.

Several representative offices have closed (leaving 61) and, much more importantly, some of the big banks have shut their dealing rooms and/or cut their staffs. Both Barclays and Midland have closed dealing rooms and Bank of America, United Gulf Bank (one of the locally incorporated banks) and Bankers Trust, among others, have announced staff cuts of up to 50 per cent.

Bank of America and Midland made their cuts, they say, partly or wholly for internal reasons. B of A had been strong in construction lending to Saudi Arabia, where the market downturn would itself have prompted a staff cut, but had also installed a large computer network for the Middle East and Europe, based in Croydon, which had reduced its need for operations staff on the ground.

Midland, at the same time, was being asked by the Bank of England to improve its global capital ratio, which made it logical for it to close a foreign treasury operation.

The dealing room closures are regarded as being significant mainly because they are felt in the market to be possible preludes to the complete closures of the OBUs concerned—even though Midland in other respects has increased its presence on the island. Security Pacific closed its dealing room some time before it withdraw.

The closure of a dealing room is regarded as being tantamount to a bank turning itself into a glorified representative office. This is because a bank without a dealing room cannot borrow to fund the facilities it is giving —and traditional OBU lending has been very much a matter of roll-over facilities, rather than medium term loans. In effect, the bank becomes a booking vehicle for loans made by its head office.

For the near future it is thought that 25 or 30 of the offshore banks may have no good reasons for staying in Bahrain, which is a very expensive centre, and may be potential leavers.

These banks do not offer a wide range of banking services, and if they stay they will have to diversify and substantially expand or change their staffs. Typically these banks at present employ staffs of between 10 and 15.

It is sometimes suggested that they are now pulling in or rescheduling Saudi loans and that when they have finished this, in six months or a year, they will go.

From a strictly banking point of view the departure of these institutions would be no great loss. There are probably too many banks in the market now, and the ones liable to leave are not the important ones.

The big banks, some of which are actually expanding their staffs—Manufacturers Hanovar is a prime example—would welcome a few departures because they would reduce competition.

Why Bahrain worries so much about the possibility of departures is that they would cause unemployment—which is by far the Government's biggest long term anxiety.

The numbers employed directly in offshore banking are not very large. According to the most recent figures, the banks' total Bahraini and expatriate staff at the end of 1983 was 2,539.

These people, however, are either very well or relatively well paid and directly and indirectly they give employment to others. They are the vital tip of a pyramid of employment. Probably their total effect on Bahrain's employment is in the range of 12,000/15,000.

What is certain is that the type of business done in Bahrain will have to change. The emphasis has to switch from lending and correspondent banking to services. The examples normally mentioned are that banks should help clients hedge their interest rate and foreign exchange exposure, modernise their management, or restructure themselves, and invest part of their assets overseas.

There are opportunities for mergers and acquisitions experts. A lawyer who is specialising in this in Riyadh is finding himself inundated with work and investment companies in the region are regularly approached by owners who want to sell their businesses.

A change towards these types of operations is something which all the banks talk about but which only the bigger banks will be able to make.

Those banks that can make the change will probably stay in Bahrain. Many banks know that they have done extremely well there in the past. They have regional business for which Bahrain makes a good base. It is logical for them to be committed to the area until the upturn in the oil market, which has become an article of faith in the region, takes place in the 1990s.

For some banks the new circumstances demand a change not only in the emphasis of their operations but in their raison d' être. This applies to the Bahraini incorporated offshore banks, of which the most important are the Gulf International Bank and the Arab Banking Corporation. On a somewhat lesser scale are the Bahrain Middle East Bank, the Kuwait Asia Bank and the United Gulf Bank, all of which were products of the syndicated lending boom.

Apart from talking of services again — United Gulf Bank is switching to investment business — they have decided to internationalise their operations.

ABC, whose chairman, Abdullah Saudi, has often said that any serious bank has to have access to customer deposits, has bought or is buying banks in Spain (Banco Atlantico), Portugal and Hong Kong.

Kuwait Asia has a bank in Singapore and is looking at investments in Asia. Bahrain Middle East Bank has bought a bank in Switzerland and is looking at a purchase in the U.S.

It is pointed out in Bahrain that this internationalisation gives the Bahrain Monetary Agency a new responsibility, for the supervision of banks which may soon have much of their business abroad.

The problem is not helped by the fact that some of these banks have expensive and unrewarding property investments on the island, and all are owned in part by foreigners, particularly Kuwaitis.

Bahrain Offshore Banking-Regional Currency Position (U.S.$m)

End of Period		Deposits	Forward Purchases	Total	Net	Deposits	Forward Sales	Total
1976		1,196	153	1,349	+ 72	1,168	109	1,277
1977		3,242	988	4,230	− 63	3,567	726	4,293
1978		6,075	1,654	7,729	+ 7	6,720	1,002	7,722
1979		7,440	1,415	8,855	− 92	8,113	834	8,947
1980		8,283	1,839	10,122	− 71	9,366	827	10,193
1981		10,568	2,822	13,390	− 729	12,437	1,682	14,119
1982		10,799	4,511	15,310	−1,283	13,301	3,292	16,593
1983		10,791	6,872	17,663	−1,592	15,003	4,252	19,255
1984	Q1	12,063	10,160	22,223	−1,369	17,021	6,571	23,592
	Q2	10,944	9,446	20,390	−1,181	15,179	6,392	21,571
	Q3	9,794	8,477	18,271	−1,648	13,639	6,280	19,919
	Q4	9,933	7,829	17,762	−1,596	13,657	5,701	19,358
1985	January	9,448	8,987	18,435	−1,755	13,748	6,442	20,190
	February	9,842	9,713	19,555	−1,788	13,876	7,467	21,343
	March	10,042	10,642	20,684	−1,918	14,119	8,483	22,602
	April	10,481	11,152	21,633	−1,536	14,783	8,386	23,169
	May	10,236	10,783	21,019	−1,618	14,413	8,224	22,637
	June	9,747	9,750	19,497	−1,827	13,649	7,675	21,324

Toeing similar line

Maghreb Countries

FRANCIS GHILES

DESPITE their many differences where foreign affairs and social policies are concerned, the three western Maghreb countries—Morocco, Algeria and Tunisia—have been pursuing broadly similar policies of austerity over the past year.

Strong differences remain, however. In Morocco the country's $13bn foreign debt, now partly rescheduled after two years of difficult negotiations, amounts to more than 100 per cent of Gross Domestic Product.

It has forced the authorities to take draconian measures, including the slashing of the investment budget, the third increase in four years the price of certain basic foodstuffs aimed at reducing the level of budget deficit.

This deficit had reached 12.3 per cent of GDP in 1982, a figure which was reduced to 6.7 per cent last year.

Cutting food subsidies in the smaller of the three North African countries was an exercise fraught with danger after the failed attempt to double bread prices in January 1984, a decision which led to the worst riots since independence.

Unlike Morocco, however, Tunisia had no need to go to the International Monetary Fund. Privately, the IMF and the World Bank have been critical of certain aspects of Tunisian economic management.

But earlier this year a rising trade deficit and the very low level of foreign reserves forced the Prime Minister, M. Mohamed M'Zali, to order that budget expenditure increases be kept to 7 per cent this year and, in respect of the capital account, frozen in 1986.

Tunisia's $4.2bn foreign debt, whose service absorbs 22.5 per cent of foreign receipts, is heavy but still a lighter burden than in Morocco.

Algeria's problems are, in a number of respects, rather different. The decision taken by the authorities in 1980 to rein in the foreign debt means that, after the hump in repayments of 1982-1985, Algeria has found it relatively easy to raise about $1.7bn in new money in the international capital markets, at very fine spreads this year. A $16.2bn foreign debt if compared with an income of $12.5bn from the sale of oil and gas (about the same as last year) does not look too heavy.

The $3bn trade surplus is needed to finance interest on the debt and the deficit in services.

The extreme caution which the visitor senses at every level in Algiers today, and the considerable slowing down in new orders of capital goods, suggest that the authorities have few illusions about the consequences a fall in the price of oil and gas would have on their external finances and are determined not to veer from the extreme orthodoxy which has characterised their actions so far.

Some issues have nonetheless been tackled boldly: producers of cereals and pulses have been afforded 20-40 per cent increases this summer, the price of bread has risen by one quarter and other increases are on the way. Such measures are necessary if farmers and other private or state manufacturers are to continue increasing their production.

Fast-rising prices are keenly resented, however, and the new-rich "millionaires du legume" are not popular.

As thousands of meetings discussing possible changes to be brought to the National Charter are televised nightly, the resentment of many Algerians at how the bureaucracy behaves has been put on public display—together with many valid criticism. The rigid and often petty corrupt habits acquired by many in the civil service grown arrogant over the years are proving difficult to correct.

Any further fall in price of 98 per cent of Algeria's foreign receipts, will test the authorities' ability to the limit.

Tunisia for its part, has been long in taking its medicine. One of the early results is a decline in its merchandise trade deficit of 11.9 per cent to Dinars 355.3m during the first five months of this year. Prices are rising as subsidies are cut back and wages frozen.

The country has been helped by rainfall, which will have provided a record crop (and thus cut the need for cereal imports) and a good tourist season. As for the 30,000 Tunisians who Colonel Gadaffi expelled from Libya this summer, they will be very difficult to employ.

Tunisian consortium banks are meanwhile introducing more modern methods of assessing new projects. They now include a bank governed by Islamic banking principles, Beit Ettemouil Saudi Tunsi, which is looking, in particular, at ways of attracting some Arab reinsurance business to Tunis.

The Moroccan government, headed by M Mohamed Karim Lamrani, has for its part and in close co-operation with the IMF and the World Bank, enacted a number of measures aimed not simply at cutting subsidies on basic foodstiffs but at laberalising trade and privatising some state companies.

The Kingdom has suffered much in recent years from the effects of drought, the rise in the value of the dollar and the high cost of imported energy, not to mention the heavy burden imposed by the now 10-year-old conflict over the future of the Western Sahara. It has also paid a price for waiting so long before implementing vital reforms.

It has been helped by substantive financial aid and loans from France, the U.S., Saudi Arabia, the IMF and the World Bank. Despite a good crop this year and a continual rise both in receipts from tourism and Moroccans working abroad, the weight of the foreign debt remains considerable.

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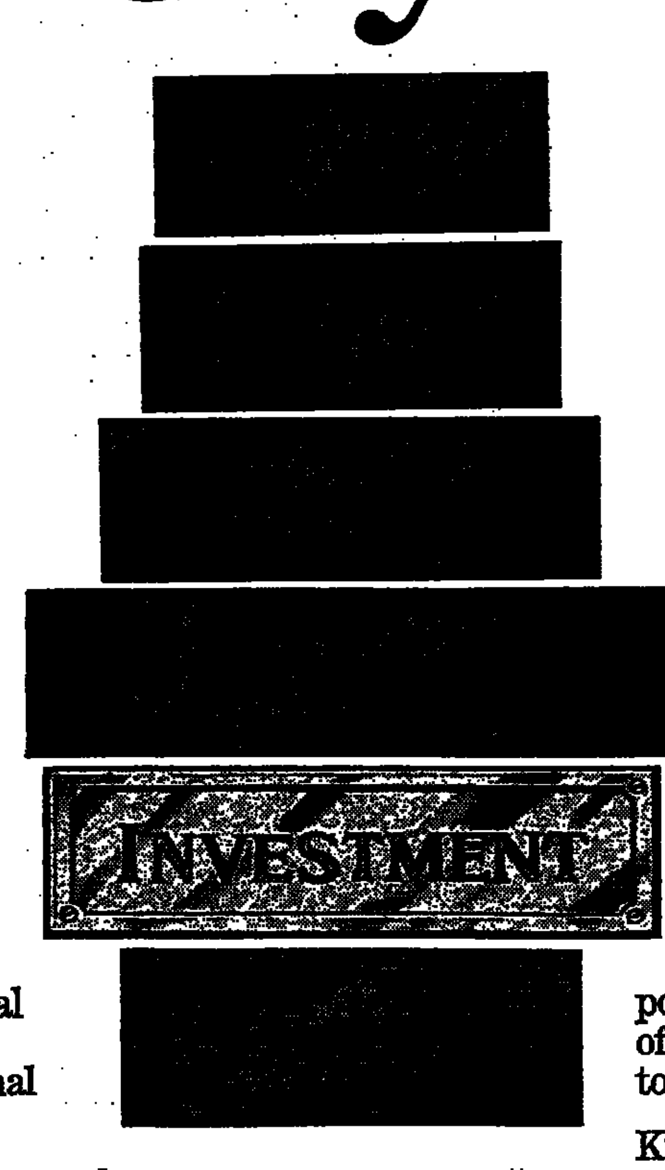

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Central Bank urges more realistic approach to loans

UAE Banking
KATHLEEN EVANS

THERE IS a debate raging in the United Arab Emirates — a post mortem, about who is to blame for the current troubles in the nation's banking sector.

Profits recorded by the country's 53 banks have shrivelled, some by as much as 67 per cent, as each makes provision for expected losses on old loans. Some of the foreign banks with restricted licences, such as Bank of America and Chase Manhattan, have already decided to call it a day and have pulled out of the Emirates. Others are engaged in trimming their staff, and employees from coffee boys to general managers are now feeling vulnerable to the effects of this painful process.

The future seems to provide no comfort, for only the most optimistic are counting on a revitalisation of business activity.

The focus of the debate is the loan portfolios which remain from the country's boom days. Customers and Government officials on one side argue that having been stupid enough to lend funds with little or no security, the banks will now have to carry their burden of past irresponsibility.

On the bankers' side, senior executives respond that inflationary lending during the good old days was actively encouraged, and that no-one, not even the most expert economists, could have foreseen the drastic effects the downturn in oil demand would have on the Gulf economies.

They add that now that they are trying to clean up their loan portfolios, their task is being hampered by the lack of a legal infrastructure on bankruptcies. Bank managers also hint that a good number of their more errant customers continue to enjoy political protection, despite rhetoric to the contrary by the authorities.

There is, however, a more complimentary view taken by bankers towards the Central Bank and its efforts to consolidate the banking system. Most understand that despite its apparent lack of legality and political clout, the Central Bank is doing as good a job as possible, given the domestic political set-up.

In the past few months, the Central Bank has concentrated on forcing banks to take a more realistic look at their advances, and provide for those loans which are clearly doubtful.

In addition, it has officially encouraged mergers to take place. So far, five banks have been merged, and this has undoubtedly helped solidify the system.

In the future, though, bank mergers will not be so easily achieved. Moreover, even the newly-emerged institutions, fat with Government cash as they are, are finding their ancestry difficult to shrug off.

For example, when Sultan al Sweidi took over as chief executive of the newly-formed Abu Dhabi Commercial Bank, he found that "some" of the three constituent banks (Emirates Commercial Bank, Federal Commercial Bank and Khalij Commercial Bank) were net debtors. Some Dh 1.25bn was injected into the bank by the Abu Dhabi Government to provide new capital. Nevertheless, the banking community in the Emirate is still rife with speculation about the ratio of non-performing loans the Abu Dhabi Commercial Bank has inherited amid the Dh 5bn advances it took over.

Being an Abu Dhabian, Mr Sweidi is able to be more frank about the economic problems he faces than his foreign counterparts. A number of the loans taken over by the new institution were clearly bad, for credit was extended to mismanaged companies which had little hope of recovery through restructuring, he explains.

Mr Sweidi is also critical about the lack of legal infrastructure to help him pursue into court customers with doubtful debts. Judgments on interest do not cover administrative costs, he states. Moreover, a number of borrowers are using political influence to pressure banks for concessionary rates of interest on their old loans. At the same time, the Government seeks compounded rates of interest at a time when margins are shrinking.

Unless these problems are resolved and greater legal muscle given to the banks, further injections of funds may be necessary to the new institution. "We will have to write off a lot of money if there are no changes in the law, and we have already told the Government this" says Mr Sweidi. He has also given notice that staff redundancies can be expected and no dividends can be envisaged until the bank is in better shape.

The Abu Dhabi Commercial Bank is fortunate enough to have a wealthy Government as its patron. Other banks are not in such an enviable position.

In recent weeks, there has been growing speculation that other banks will have to seek assistance from their ruling families and emirate governments in the same way as mergers have been achieved in both Dubai and Abu Dhabi.

Attention has now shifted to the northern emirates where a number of possible combinations could come about. Mergers would seem logical between the four locally incorporated banks in Sharjah for example. However, the most logical takeover partner, the National Bank of Sharjah has experienced a Dh 38m drop in profits, presumably as provisions were made for loan losses.

Bank of Credit and Commerce International in Dubai

Hence, although such marriages might seem logical, there is no speculation at present that any mergers are in the offing in Sharjah. In the words of a senior executive of one large local bank in the Emirates: "Acquiring banks in this country means acquiring headaches."

Such thinking is likely to be a major obstacle to further takeovers. Any merger which will take place in future is probably only going to be accomplished by emirate governments nurturing the process with large cash injections. The problem is that governments of the Northern Emirates are reluctant, or financially unable, to embark on this costly process.

Concern is presently centering on Ras al Khaimah's Bank of the Arab Coast. Chaired by a nephew of the Ras al Khaimah ruler, Sheikh Omar bin Abdullah, the bank is engaged in a legal prosecution in the Dubai courts against its former general manager.

Some months ago, this bank was rumoured to be in merger talks with the First Gulf Bank of Ajman, which was established following a restructuring of the former Ajman Arab Bank which closed in 1977 and still has a soft long-term deposit of Dh 50m from the Central Bank on its books.

Talks between the two banks appeared to break down early this summer, and following a Central Bank initiative, mergers talks opened between the Bank of the Arab Coast and Bank of Credit and Commerce (Emirates).

However, BCCE made it clear that such a merger could only take place if a soft long-term deposit were made available from the Central Bank or other sources.

The Central Bank in its current situation would find such a request difficult to meet and so attention moved to the local Ras al Khaimah government as a possible source of funds.

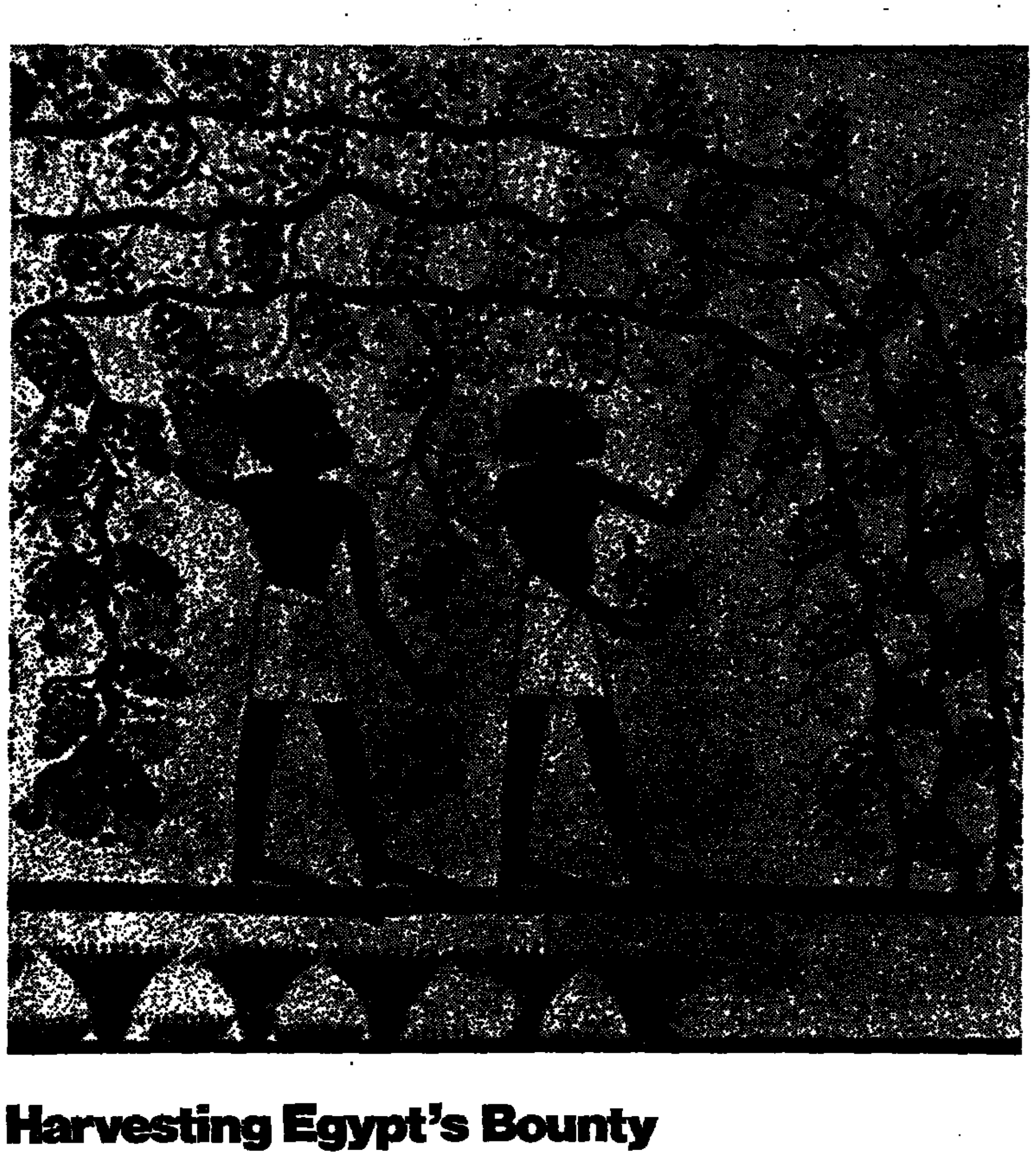
In the meantime, merger talks with BCCE broke down, and discussions were renewed with the First Gulf Bank. This bank has subsequently expressed the need for similar incentives to be offered. So far none have been forthcoming either from the Government of Ras al Khaimah or the Central Bank.

Unofficial sources suggest that another option is that the National Bank of Ras al Khaimah absorb the Bank of the Arab Coast. However, both the National Bank and the Government appear reluctant to take over the Bank of the Arab Coast because of the weakening effect it might have on the National Bank.

At present the problem of who is going to take over the Bank of the Arab Coast and how the takeover is to be financed, has not yet been resolved.

Political opinion in the capital suggests that the shareholders of the bank are responsible for helping the bank make itself attractive to takeovers. Principal shareholders include the chairman, Sheikh Omar, Sheikh Khalid bin Saqr, the crown prince of Ras al Khaimah and other leading sheikhs, who together with 90 other UAE nationals hold about 67 per cent of the bank's shares. The remainder is held by unidentified Kuwaiti and Gulf nationals.

The financing of this merger, and the others that are likely to follow, wil not be so easily accomplished as the three previous ones which have taken place. But unless the problem is resolved smoothly and easily, the nerves of all concerned in banking in the Emirates are likely to become more ragged, for the role of lender of last resort appears to be a responsibility that no-one seems willing to take.



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Beset by inherited problems

UAE Central Bank
KATHLEEN EVANS

THE CENTRAL Bank of the United Arab Emirates (UAE) was born in 1980 after a crisis in 1977 left the country's banking system severely shaken. Two banks closed their doors, one of them never to reopen. Depositors had to wait more than a year to receive a fraction of their funds. Clearly, the country had to have a strong central monetary authority.

Given the boom and bust nature of the UAE economy, buffeted as it is by the hot and cold winds of the oil market, it was vital for the country to have a lender of last resort and a regulatory authority supervising the conduct of the banks. This was particularly necessary in a country where only a handful of banks are actually run by nationals of the country. Yet five years later, the Central Bank is still suffering from the problems experienced by its forerunner, the UAE Currency Board.

At the present time, the Central Bank has no governing board, the term of the old board having expired at the end of last year. As a result, Abdul Malik al Hamr, previously the governor is presently acting on the basis of temporary governor until a new board can be appointed to re-approve him or nominate another.

Subsequently, the Central Bank cannot enact any major decisions until a new board is available to provide legality to its decisions. A consequence of this uncomfortable predicament is that the board has been unable even to publish any economic statistics, or its balance sheet for last year. As the end of 1985 comes nearer clearly some rapid decision-making is required from the two leading emirates.

These problems are in no way of the Central bank's making, they are merely a symptom of the kind of difficulties federal institutions are experiencing in the Emirates. The Central Bank, as the most important federal institution apart from the defence establishment, is no exception.

As the pillar of the economy, it has found itself subjected to the divergent tugs and pulls exerted by Dubai and Abu Dhabi. At times, these differences between the Central Bank and the Sheikhs assume petty and even personal dimensions. Central Bank staff, many of whom are foreigners, have a hard time advising the sheikhs what to do with the banks in their emirates, let alone imposing painful policies on their banks.

In the past two years, the fact that the Central Bank has no provision in its constitution to act as lender of last resort to the banking system has not been a problem, for it has been the local sheikhs and their governments which have moved swiftly to help out troubled banks.

It may not be so easy in future given the fact that the other emirates are not as wealthy as Dubai and Abu Dhabi. Assistance from the Central Bank is not guaranteed for a number of reasons.

In the past when the Central Bank has sought to help bail out banks, it has proved a bumpy exercise. It is now trying to exact the Dh 50m long-term deposit it provided in the late seventies to First Gulf Bank to help in its establishment from the former Ajman Arab Bank.

The second occasion came with the bail out of the Union Bank of the Middle East which was done in conjunction with the Government of Dubai. In return for part of the Dh 1.4bn it provided, it received a mortgage on a hotel, a skating rink and an apartment complex.

A month ago, this was exchanged for Dh 550m cash, though it is not clear whether this sum represents full compensation for the original Central Bank funds injected into the rescue.

Some financial circles in the country believe that one of the factors contributing to the Central Bank's reluctance to help out again is that the two leading emirates have failed to fulfil their commitments to inject long-term deposits into the institution as called for by the law which established the Central Bank.

According to its constitution, Abu Dhabi and Dubai are supposed to provide $2bn each in the form of long, soft term deposits. So far, no such funds have been received from either emirate yet. Meantime, the belief persists in circles close to the institution that given their financial situation, the Central Bank would find it extremely difficult to mount any further large scale rescues.

One of the factors which may have added to the reluctance of certain emirates to provide the Bank with both funds and political support is the record of its banking supervision department. Some emirates have wondered why these sudden rescues have become necessary, and why the situation was not spotted before by Central Bank supervisors.

They also point to the fact that in the last 18 months the former head of the Central Bank's supervision department and his deputy were obliged to resign in questionable circumstances. One former official will shortly be pursued in the U.S. courts on charges of abuse of position. The other, a national, has been awarded a post in another government ministry. Given such a chequered history of the department, it is not surprising that some emirates express reluctance in supporting the institution.

This lack of political support this federal institution experiences at present occurs at a time of growing respect for the institution felt by the banks. Most senior banking officials express admiration for the bank and its temporary governor, Abdul Malik al Hamr in the efforts it has made to force the banks to clean up their loan portfolios.

But any tougher methods of policing the banking community can only come about with greater political strength. For example, while the Central Bank talks constantly of pruning the banking system, it is obliged to licence new banks which the sheikhs might want to set up.

The first step to that strengthening process is the appointment of a politically influential board of directors. This will only come about after lengthy negotiations between the two leading emirates, for the board, the governor and the chairman have to be acceptable to each emirate.

The old board was a careful blend of representatives of Dubai and Abu Dhabi. The chairmanship was held by Abu Dhabi by Sheikh Surour bin Mohammed al Nahayan, who is chairman of the presidential court. Sheikh Surour is also rumoured to be reluctant to serve another term of office, though most bankers believe that eventually he may be persuaded to continue.

The post of governor, by the very nature of the job, should be held by a personality deemed to be impartial by the two emirates. Mr Abdul Malik al Hamr is a Bahraini. Many bankers believe in the end Mr al Hamr will continue in his post, re-approved by the new board.

Others, though, are indulging in speculation about other possible personalities who are UAE nationals. Among those being mentioned is Saeed Ghorbash, president of the troubled Arab Monetary Fund, and Nasser Nuweis, head of the Abu Dhabi aid fund. There is also speculation that any of the Abu Dhabians who used to serve on the old board, may emerge as the new governor.

Whoever it is in the end, the new governor must be acceptable to both emirates if the Central Bank is to acquire the political strength it needs for the future.

Weak management controls damage AMF standing

Arab Monetary Fund

CLIVE WOLMAN

The Arab Monetary Fund, the establishment of which in 1976-1977 represented the high-point of pan-Arab economic cooperation, is in the doldrums. Its management has been paralysed for most of the last 18 months and its credibility damaged among the oil-rich Arab states which are its chief contributors.

The source of its malaise has been the charges of embezzlement and financial malpractice, causing losses to the AMF of $70m, brought against its former president from 1977 to 1982, Mr Jawad Hashim and four of his former colleagues at the fund. These include Mr Mohammed Mehdi Bahr el Eloum, the former head of the treasury and investment department and Mr Jalal Stephan, the former head of the finance department.

These two officials and Mr Hashim, who now lives in London, have refused to attend the court hearings, which have been held in camera in Abu Dhabi, and have been adjourned until October 27. Mr Hashim has said he has no confidence in the judicial process in the United Arab Emirates and has claimed diplomatic immunity.

A confidential report prepared for the court by officials from the Audit Burea and the Central Bank of the UAE accuses Mr Hashim and his officials of forging telexes, and of booking profits from the AMF's foreign currency dealings to private accounts.

What is equally damaging from the AMF's point of view is Mr Hashim's recent claim in response to the charges that the $70m of losses were the result of precious metals speculation by fund officials in 1979, a factor not taken into account by his accusers. He said he decided against immediate disclosure of the losses in the accounts. Instead they were spread over three accounting periods by rolling over the loss-making forward contracts to buy gold and silver, he said. The contracts were recorded in the balance sheet at cost price. The losses were ultimately reduced by half by offsetting them against profits from foreign currency dealing.

Whichever explanation is correct, the episode reveals major weaknesses in the AMF's management controls and its internal auditing procedures, even though the confidential report exempts the external auditors, the Kuwaiti-based pan-Arab firm, Talal Abu Ghazaleh, from any direct responsibility. Abu Ghazaleh have been replaced as auditors by Ernst and Whinney.

Mr Hashim has said that throughout his presidency he found it difficult to recruit high quality technical staff from around the Arab world because of bureaucratic obstacles and delays in obtaining visas.

Perhaps fortunately, the chief technical demands made on the staff of the AMF during its first eight years have been limited to portfolio investment management. Although the AMF was modelled on the International Monetary Fund, it has not yet mounted a full-scale IMF-style loan operation imposing rigorous constraints on the economic policies of a member state.

So far the only states to have been granted "extended loans," which are given in support of a corrective programme agreed by the AMF, have been Sudan, Morocco, Somalia and Mauritania. Missions were despatched to these countries to advise on corrective measures but the conditions they imposed have been benign by IMF standards. So the technical ability of its officials to hammer out and monitor a set of conditions on a borrower has not been fully tested. Similarly, the rates of interest charged, 3.75 per cent in the first year of automatic loans, and 5.2 per cent for other loans, represent a substantial subsidy to the borrower.

But in view of the mounting resentment against the IMF among Third World countries with large debt problems, the AMF's adoption of a profile more akin to that of the World Bank than the IMF has been a sound political move.

On the other hand, the AMF is far from achieving any of its wider political objectives. Its goal of promoting Arab economic integration and the introduction of a unified Arab currency based on the AMF's Arab Accounting Dinar (AAD), an artificial currency tied to the IMF's Special Drawing Rights, has hardly been broached. Its Inter-Arab Trade Facilities, loans designed to promote inter-Arab trade, have so far been taken up by only four members (Jordan, Syria and the two Yemens) to a total value of $38m. And, its commitment to developing Arab financial markets has been no more than token and, in the Gulf region, is likely to be superseded by the Gulf Investment Corporation.

Under Mr Hashim's presidency, the AMF occasionally attempted to exploit the financial clout of its members in international relations, demanding guarantees against a recurrence of the freezing of Iranian assets in the U.S. in 1980, and threatening financial sanctions against Canada if it moved its embassy in Israel to Jerusalem. But in neither case were there any practical consequences.

Since Mr Hashim's term as president expired in May 1982, his successor, Mr Saeed Ghobash, a former planning minister in the United Arab Emirates, has adopted a much lower profile. Mr Hashim's executive suite of offices has been replaced by a smaller, utilitarian office on the 17th floor of the AMF's gold-reflecting glass building on Abu Dhabi's waterfront. Salary levels have been held down and the active courting of publicity has been replaced by a reluctance to discuss any AMF matter in public.

Since Mr Ghobash first asked the international accountancy firm, Ernst and Whinney, to investigate the AMF's procedures for recording foreign exchange transactions in May 1983, the alleged fraud has absorbed an increasing amount of the management's time, particularly since the investigation was first leaked to the Arabic Press in May 1984.

The number of loans approved fell from 10 in 1983 to five last year and their combined value from AAD 84.7m ($270m) to AAD 18.5m ($57m). Although this meant that there was no strain on the capital resources of the fund, the accusations against Mr Hashim have so damaged the AMF's reputation that it is now doubtful whether all the members will pay up the capital they subscribed in 1983. They are required to increase the AMF's paid-up capital by 140 per cent by 1988 to AAD 600m ($1.9bn) in five equal annual instalments.

But last year, only AAD 20m were paid up giving a total of AAD 268m. The fear now is that the Gulf states in particular will use the allegations against Mr Hashim as an excuse for not making further payments, although their declining oil revenues may be a more potent factor.

A national obsession with the U.S. dollar creates problems

Egypt

KATHLEEN EVANS

THE BANK manager swivelled his chair and peered out to the noisy street below. "See that chap down there, the guy outside the grocer's shop." He pointed to a rather scruffy-looking individual who was walking up and down the sidewalk with an air of studied casualness. "Well, he is selling dollars at E£1.70 today. I am not allowed to do that. Naturally, all my customers who want to buy or sell dollars go to him."

Therein lies the nub of Egypt's present financial problems. Egyptians are not allowed to buy and sell dollars at market rates. They do so however to the point of national obsession, all made possible by those little men on street corners and the larger men who back them, who together constitute the black market, or "free market" as it is known.

About $3bn a year is exchanged annually through these illicit money exchange dealers, at rates over which the Government has no control. Meantime, the country's official banking system is barred from entering the money market fray, and positively creaks under the weight of five different exchange rates and a pyramid of rules and regulations.

The net result is that Egyptians who want to protect their savings buy the only instrument they know and trust, the American dollar. One third of the country's total deposits are now in dollars, and most of them either earned outside Egypt or acquired illegally.

This time though, Egypt's financial community is full of expectations that the Government will finally take action towards unifying the rates and legalising the exchange dealers. Pressure is at last mounting on them to do something, for in late September the Egyptian pound slipped precipitously against the dollar in the free market, falling from E£1.40 to E£1.70 and even lower. Luckily the dollar's surge proved to be only temporary and rates again levelled out at E£1.00 but still down on the week before.

The foreign exchange rates have to be unified and put on to a market rate in order that the vast funds earned and held by Egyptian nationals working overseas will be encouraged to return home through the official banking system. However, this has to be done simultaneously with a restraint placed on imports, for if imports are allowed to continue to increase each year, then demand, and therefore rates, for foreign currency will soar.

A flotation of the pound can only be achieved with a cushion for the banks and that is only likely to come with a standby credit from the International Monetary Fund.

The IMF is, however, looking for action from Egypt over the issue of subsidies. Increasing prices for consumers through cutting back subsidies, at the same time as floating the pound, will however have a dramatic inflationary effect.

Economy minister Sultan Abu Ali has promised that the opening shots on import restraints will be announced shortly.

Most believe that the minister's package will contain protective and prohibitive tariffs and customs duties depending on the productive nature of the import and its social desirability.

Yet those new regulations are likely to affect those goods traditionally imported by the private sector. A return to a restricted economy is thus likely to have political as well as economic repercussions, and it will have to be finely tuned.

Slashing imports is anyway not going to be easy. Over half of Egypt's food requirements are now imported, and public sector industry has already drawn down on stocks and even had to cut production because of foreign currency shortages.

The moves earlier this year by former economy minister, Mustapha Said requiring importers to purchase their dollars only through the banking system will undoubtedly affect this year's imports, because for three months, importers had real difficulty in financing their purchases.

Nevertheless, analysts are expecting the year-end figure to be well over $10bn, for local managers report a near doubling of LCs in the third quarter as importers made up for the orders they could not fulfil earlier this year.

Ideally, this surge in imports should be matched by an increase in Egyptian exports, but exports are stagnant and in some areas actually declining. Overall, the non-oil sector is expected to grow only 1 per cent a year.

The establishment of the Export Development Bank of Egypt will undoubtedly help, but at the moment, there is a dispute going on between the Government and the World Bank over the exchange rate at which the bank's aid will enter the economy, and whether the funds will be used to finance industry which makes use of subsidies. Boosting export revenues, although urgent, could help only in the medium term.

In the meantime, Egypt is facing a projected $1.8bn deficit on its current account, according to IMF estimates. Prospects for any immediate upturn in foreign currency receipts look bleak. Oil revenues for example, could take a nosedive in the early part of next year when the Organisation of Petroleum Exporting Countries structure comes under severe pressure.

Suez Canal revenues appear to be stagnant at around the $900m level. The major source of foreign currency revenues, from the 3m Egyptians working overseas is also expected to weaken as the impact of the recession in the Gulf states makes its impact.

Analysts are expecting a fall in the $3bn expected in remittances, as more and more workers come home. Revenues, it is believed, could sink back to $2.8bn or less than $2bn. Most of these funds do not touch the banking system anyway, and end up on the free market.

Egypt's debt service ratio on its external debts, estimated by the IMF to be in the region of $31bn, is expected to reach 35 per cent this year. With traditional sources of revenues declining, Egypt's balance of payments is projected to register a deficit of $1.8bn this year, $2.6bn the next and $3bn thereafter.

Central bank reserves barely cover three months imports. Recent foreign currency shortages could indicate that the situation has worsened, for foreign banks and suppliers are complaining of delays in payments stretching over several months. Egyptian banks explain that the delays are minimal and for "technical reasons." Meantime, suppliers are becoming increasingly wary of doing business in Egypt.

To increase its resources of foreign currency, the Government has to have access to the vast pool of funds held by Egyptians outside the country. Unification of the rates on foreign exchange has thus become an urgent necessity, says the IMF.

No one though is talking of a unification of all five of Egypt's existing rates. Such a move is recognised by all, bankers and IMF officials alike, to be too hard a measure for Egypt to accept overnight.

At present, a number of essential food items come in at the special rate of E£0.70 to the dollar. Below that, there is the E£0.40 rate for all transactions with the Eastern bloc.

A third rate of 84 piastres applies to payments for airline tickets and expenditures by foreign residents and purchases by the public sector. A fourth rate was introduced currently at about E£1.30 which was supposed to float on a daily basis according to decisions taken by a committee of officials from the central bank and the large public sector banks.

True, it has edged up considerably in recent years, but still there is a growing gap between this old "incentive" rate and the free market price.

In late September when the gap widened considerably, leading bankers, government officials and central bank governor Ali Negm were in continuous huddles, and speculation increased that a unification was close. The Government was also reported to be studying the possibility of licensing the money exchange dealers and charging them a fee of around $100,000.

A move to legalise the brokers implies that the banks, too, would be able to buy and sell dollars at the free market rate. Only in this way, will the banks be able to attract a portion of workers' remittances.

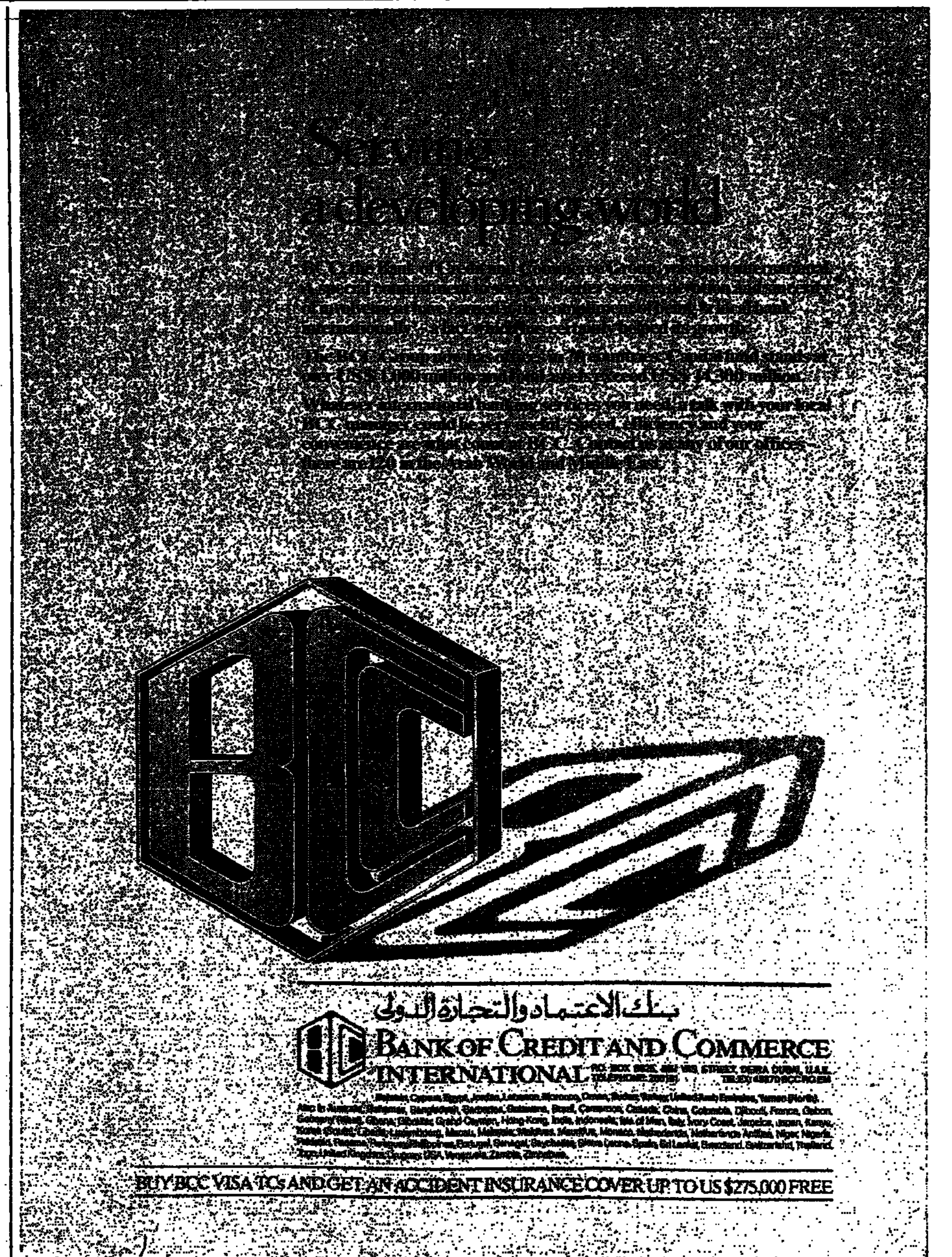
At present, the private sector funds its imports almost entirely through access to these inflows. In recent months, however, even the public sector has had to resort to such channels because of the shortage of foreign currency through the official banking system. Estimates of public sector involvement in the free market now range up to $2.5bn.

A number of formulae are being tossed around by Cairo bankers as possible strategies the Government may decide on. One is to keep the 70 piastre rate for a period of say three years, gradually nudging it up closer to market rates.

Egyptian officials have expressed reluctance to abolish the 84 piastre rate for public sector industries use this rate to pay for their imports, when that is, foreign exchange is available. Egyptian bankers expressed the hope that while they fully agreed on the necessity of a free floating pound, that the fluctuations should be controlled to say 3 or 5 per cent above or below a base.

A unification of the foreign exchange rates, or the establishment of a two-tier system of rates, would immeasurably add to international confidence in Egypt.

The drastic measures taken by former economy minister Mustapha Said have considerably eroded confidence and remittances soon slowed to a trickle from overseas. The fear that the Government may again make sudden decisions is likely to linger and it will take time for expatriates to be encouraged enough to put their foreign exchange through the official banking system.



ARAB BANKING 6

Adequate loan provisions would halt dividends

Saudi Arabian Banking

MICHAEL FIELD

THE BANKING problems of Saudi Arabia have reached the stage where the business community is seriously worried and is speculating about the future of the system. But as yet the scale of the banks' difficulties does not show in their results.

Seven of the nine Saudi/foreign banks in the Kingdom, which all work on the basis of the Gregorian year, reported falls in profits ranging from 3 to 50 per cent for the first half of 1985. Given that there had been only minor reductions of profits in 1984 and that traditionally Saudi banks have been the most profitable in the world, the figures gave an illusion of continuing prosperity.

Two of the banks, the United Saudi Commercial Bank and the Saudi Investment Bank, reported losses.

The Riyad Bank draws up its balance sheet in accordance with the Government's financial year, beginning on 1st Rajab, which this year fell near the end of March. The bank, which controls about 25 per cent of the total banking business in the Kingdom, reported a drop of nearly 20 per cent in profits last year.

The biggest bank in the Kingdom, National Commercial, which has over 40 per cent of the market, publishes its accounts at the end of the Islamic Hijra year. This fell in the middle of September and as yet no figures have been released. The bank's employees say that profits will be down by only 10 per cent.

All of these figures, of course, reflect in full the growing cost of deposits which has been a significant, but often ignored, burden for the banks in the last two years.

Traditionaly the banks have had between a quarter and a third of their deposits interest free. Now that times are harder customers seem to be finding it easier to reconcile the acceptance of interest with their consciences, and the volme of free funds is declining. (In Islamic law interest is condemned as usuary).

Also, as the business climate worsens, companies are keeping less of their funds in inventory and more in deposits. On this money bankers almost always have to pay interest.

A far more serious problem for the banks is the existence of large numbers of non-performing loans.

These are reflected to only a small degree in the results released so far. In the main they exist out of sight in the banks' internal accounts.

The banks have not only been reluctant to make provisions to cover these loans; in many cases they have been continuing, with extraordinary optimism, to add unpaid interest to them, thus inflating balance sheets which should be shrinking.

Once the banks begin to make proper provisions it is thought that they face the prospect of paying no dividends for three or four years.

The banks will not be drawn on the percentage of their loans that is not performing, but they stress that they do not include in this category most of the published cases of corporate financial crises.

A few Saudi companies that have run into difficulties — notably Carlson al Saudia, and National Chemical Industries — have collapsed, but most of the other well-known names — Shobokshi, Helwani, Jameel — rescheduled their debts or paid their way out of trouble by liquidating investments. It is understood that Beta Services, in which the Zaidan family is an important shareholder, is now doing the same.

The loans that are not performing are mostly to small and medium-sized businesses in trading (especially retailing), real estate, transport and, above all contracting.

It is now obvious that in the past many Saudi contractors were not making nearly as much profit as they should have been. They were seeming to prosper because abnormally high margins had been built into the contract prices or because they were able to finance their losses on one contract with an advance payment on the next.

Since the flow of contracts began to lessen, in the autumn of 1982, this procedure has no longer been practicable, and the contractors, most of whom are very simple men with no understanding of financial controls, have found themselves unable to pay their borrowings.

The banks that have been hit hardest by this type of problem have been the Saudi/foreign institutions, which were created in the later 1970s from the branches of foreign banks. Before these became Saudi companies they were each allowed only two or three branches in the Kingdom, and only one of them, Citibank, which has become the Saudi American Bank (Samba), had a branch in Riyadh.

The result has been that in the expansion of the last seven or eight years the Saudi/foreign banks have collected the second class customers — especially around Riyadh, which has seen the most dramatic growth of any region and where the economy has been mainly construction driven.

Predictably the least severely hurt of the mixed banks has probably been Samba, which is the third biggest bank in the Kingdom.

When any of the banks, mixed or wholly Saudi, confronts one of its less sophisticated customers to request repayment of a loan it is quite liable to be given a truculent response. It is not unheard of for the customer to argue that as the bank has made a lot of money out of him in the past it should forget its loan, or at least forget any outstanding interest.

Even in cases where customers are extremely difficult the banks only sue as a last resort.

If they go to court or to the commercial disputes committees, which are three-man tribunals including a judge, they are now requested to give details of all transactions in the account since the loan was given.

Any element of interest due or already paid the courts will deduct from the amount claimed by the bank. This means that the bank will certainly make no profit on the loan and may even lose more than it gains by litigation.

What is certain is that the courts tend to look unduely favourably on borrowers. They are inclined to agree to very long and easy repayment schedules, and tolerate flagrant delaying tactics on the part of defendants.

As in other countries the courts encourage compromise. They often tell the bank and the debtor to go away and work out a solution on the basis of suggestions that the debtor has put before them — suggestions that are not likely to be acceptable to the bank.

Sometimes the defendants simply ignore court judgments. Saudis swear that this is impossible, but foreign bankers say that it happens quite often. Whether the miscreant ultimately escapes imprisonment depends on whom he knows.

It is noticeable that the entirely Saudi banks, National Commercial and Riyad, tend to take a more relaxed view of these legal problems than do the Saudi/foreign banks — possibly because they have better clients.

It is said that judges are particularly unsympathetic to the partly foreign banks. It certainly seems that Saudi managers find the process of negotiation and dealing with the courts easier to understand than the foreign bankers.

All the banks, and particularly the foreign ones, now say that there is a need for a proper modern law on bank lending and the security of loans.

In practice there is not the slightest chance of the Government agreeing to this, because it would involve the legalisation of interest. The purpose of the Saudi state remains the propagation of a particularly austere, pure and Godly form of Islam, and only secondarily the creation of a modern economy.

Nor is there much chance of Saudi practice of a reform of Saudi practice on mortgages. The notaries public in Saudi Arabia stopped legalising mortgages on real estate, including commercial buildings, some five years ago, and they do not normally approve liens on moveable assets.

This means that the only form of security available for a loan in Saudi Arabia is a third party guarantee — and even this is reliable only if the guarantor is honourable or has an account, which can be debited if necessary, at the bank which holds the guarantee.

The reason for these difficulties over mortgages is that they are seen as a device by which the banks try to ensure the payment of interest. In theory one can still register a mortgage if it contains no element of interest, but from the banks' point of view this is irrelevant.

All that the banks can practically hope for from the Government committee that is investigating the issue of security is a tightening of court procedures.

One reaction of the banks to their problems has been a renewed caution in lending. They are reverting to the practice of lending on the basis of peoples' reputations and lending to big Saudi companies, which can be relied upon to honour their interest obligations because they do not want to damage their reputations internationally.

Some of the banks — Samba in particular — are talking of fee business. Saudis traditionally have been reluctant to pay for advice because it is intangible, but in the present climate there is a feeling that companies may be happy to have their financial systems and management reorganised.

Certainly it seems that companies are prepared to pay for computer services — for cash management, pay roll organisation, account reconciliation (matching a company's own and its bank's records on a day to day basis), and instant access to accounts.

Finally the banks are beginning to think of doing some of their business in a fashion which will be acceptable to the religious authorities.

What they have in mind are arrangements of the lease back type rather than the partnerships between the banks and clients in investments of the sort entered into by Islamic banks.

A banker in Riyadh remarked recently that he thought his bank should at least look into this idea. And he added: "I think we'll have to change sooner than the Saudi Government changes the law."

Reorganisation makes no further headway

Saudi Arabian Money Exchangers

MICHAEL FIELD

The Saudi Government's programme of reorganising — or curbing — the money exchangers, the partnerships which have hitherto acted as a primitive, unofficial, parallel banking network, seems to have ground to a halt.

The central bank (the Saudi Arabian Monetary Agency — Sama) and the Finance Ministry have already achieved part of what they want. They have the money exchangers giving them figures on a regular basis, so they may be content not to pursue the second half of their programme, which would involve all the exchangers ceasing to take deposits.

They have been prevented from acting decisively on this by the power of the big exchangers, all of whom are rich and influential, and by the present reluctance of the Government — in effect the King — to take decisions on difficult issue.

The degree stating that the exchangers operations were to be controlled was promulgated in December 1981. It was essentially a restatement of a previous decree, which had been issued in 1974 but never enforced.

Its purpose was to remedy the almost totally uncontrolled nature of the exchangers' dealings.

For many years the exchangers had not only bought and sold foreign currencies, they had held the current accounts of ordinary Saudis, issued cheque books and stayed open late in the evenings to suit the working hours of the souq shopkeepers who held money in their safes.

None of this activity was regulated by the central bank and members of the public dealing with the exchangers were completely unprotected. Government agencies would not recognise cheques drawn on accounts with exchangers. When such cheques given to private citizens bounced the payees had no redress.

The exchangers could place their assets in whatever investments they liked and were not required to maintain liquidity ratios or keep funds on deposit with Sama, as the banks were obliged to do.

Most of the exchangers paid no interest to customers — though the Algosaibi family, which reactivated a very old licence in the early 1980s, says that it pays interest if it is asked to do so.

To some extent the exchangers also avoided receiving interests, preferring to trade with or invest their customers' money, but most of them were happy to take interest from whatever funds were left over from these operations. They profited enormously.

The regulations of December 1981 stated uncompromisingly that the exchangers should be licensed by Sama (rather than by the Ministry of Commerce), as they were supposed to have been since 1974. They also stipulated that the exchangers should liquidate their current account operations within three years — by the end of 1984.

Lastly the exchangers were ordered to maintain certain levels of liquidity and provide Sama with monthly statements of their affairs.

In the four years since the second promulgation of this decree Sama has licensed some 25 exchangers — out of an original money exchanging community of some 50-60 firms — to carry out just the simplest form of operation, exchanging paper notes.

A few small firms it has closed, either because they failed to register or because they had obtained their Ministry of Commerce licenses between 1974 and 1981, which meant that technically they were established in contravention of an existing decree.

At the same time Sama has licensed a further dozen firms to undertake slightly more complex operations, transfers, the issue of drafts and the sale of travellers cheques.

This has left about nine firms continuing to do business as they have always done, apparently ignoring Sama instructions. An extension of the Sama dealine to March this year was allowed to pass unremarked.

One of these firms, the Al Rajhi Company for Currency Exchange and Commerce, has an officially defined future: it intends to turn itself into an Islamic bank or investment company.

It seems that the other big firms hope to be allowed to become a form of secondary bank, possibly with the status of licensed deposit takers in London, but with an investment banking aspect which would allow them to manage portfolios. They accept that they will probably not be allowed to put the word "bank" in their names.

Five of the firms, Algosaibi, Muqairin, Subaie, Kaaki and Sanea, are co-ordinating their position in negotiating with Sama. They swap information and show each other their correspondence.

At one stage it was suggested that they should amalgamate, and Sama is thought to have been fairly attracted by this idea. But in the event the companies' different regional backgrounds and different levels of sophistication — with Algosaibi running a computerised American Express card operation and some of the others working with traditional Indian clerks and massive ledger books — made the scheme impracticable.

Sama and the Ministry of Finance, ideally, would like to close the big exchangers. They feel that the firms are an irrelevance and besides they want to improve the banks' profitability. They certainly do not want to see more banks in the Kingdom.

However, whenever the threat of firm Government action looms close the big exchangers rush to complain to the royal family. They argue that they were the first financial institutions in the Kingdom, that they are a genuinely Saudi phenomenon and that they fulfil a real social need.

The families concerned do not seem to feel too threatened by the authorities. Several of them have invested in automatic teller machines and computers.

The most probable outcome of the slow manoeuvering of the two sides is that nothing will happen. Sama may simply close its eyes to the exchanges continuing to operate as they have done in the past, except that their activities will be more closely monitored.

The main problems in this scenario would concern the two smaller Rajhi companies, the Al Rajhi Trading Establishment and the Al Rajhi Commercial Establishment for Exchange, which broke away from the main family establishment in the 1970s, at about the time that Sama was taking its first ineffective steps to regulate the exchangers.

Technically there is a case for saying that they should be closed, but both firms have a reputation for professionalism and influential friends.

Meanwhile, the biggest of all the dealers, the Al Rajhi Company for Currency Exchange and Commerce, which is second only in size to the National Commercial Bank in the Kingdom, is moving painfully slowly towards becoming an Islamic Bank. As such it will trade and invest in partnership with its clients but not charge or pay interest.

It was thought that the partnership would be launched as a bank and a public company in early 1984, but there have been continual delays.

Explanations for these have been many. It is known that Barclays Bank, which was hired to modernise and computerise the giant exchanger's operation, found its task quite impossible and left in despair.

Sometimes it is suggested that Sulaiman Abdul-Aziz Rajhi, the leading partner in the firm, may be hesitating because he has seen the losses made by other institutions which have followed the complicated and risky path of Islamic banking.

It is even believed by some that Sama is now trying to prevent Rajhi becoming an Islamic bank. This would be mainly because it fears that if the launch goes ahead it will come under pressure to legitimise the 40 odd offices of the Dar al Mal Islamia, the it Geneva based Islamic finance house promoted by Prince Mohammed al Faisal, which has been allowed to operate in the Kingdom unofficially.

It is also known that Sama believes — with some justification — that Islamic banking encourages speculation.

In practice it would be very difficult for Sama to have second thoughts on the Islamisation of Rajhi, though to minimise the revolutionary effect of the innovation it is believed to be insisting that the new company does not incorporate the word "Islamic" in its name.

The Government has already given formal approval for Rajhi to become an Islamic bank, and two months ago the exchanger joined the commercial banks' clearing system.

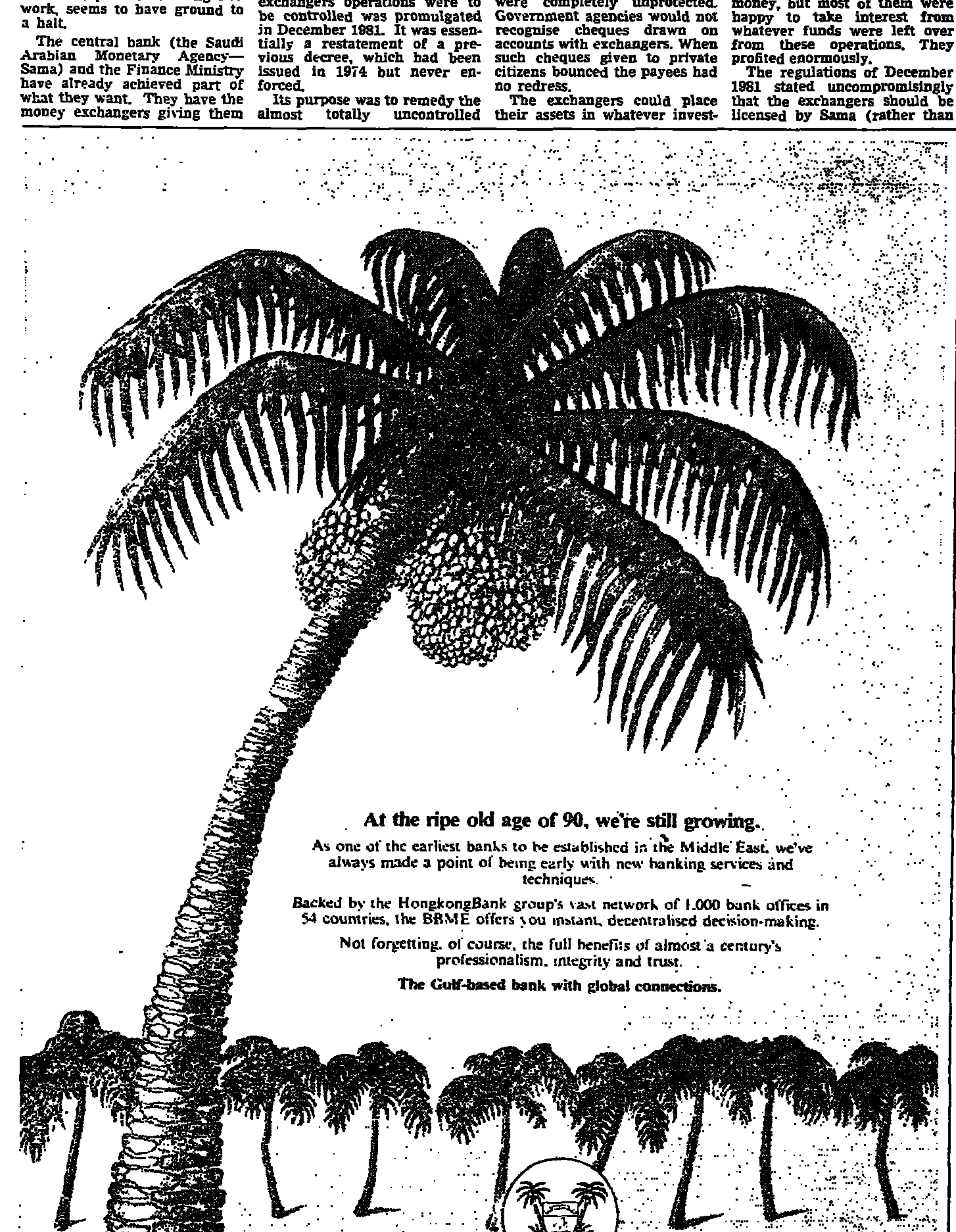
Now both Sama and Rajhi may be happy for the firm to mark time for a bit. It is even possible that, as with the other exchangers, the two parties will be content to let the situation last indefinitely.

From Sama's point of view this solution would avoid the embarrassment of an Islamic bank coming into being, while the Rajhi family would continue to enjoy the best of both worlds. By being admitted to the clearing system its firm has been made virtually into a bank, while by remaining an exchanger it receives its deposits interest free and does not have to bear the risks of Islamic finance.

Even the commercial banks, which dislike the exchangers and accuse them of sharp practice, are reasonably happy with the present position.

For obvious reasons they no longer feel threatened by Islamic banks and so worry less than they used to do about what will happen if Rajhi does become a fully fledged Islamic institution.

For the present they find the exchangers less of an irritation because they notice that in these harder times there are fewer depositors who are happy to place their funds with people who pay them no interest.



Leading Saudi Money Exchangers

Al Rajhi Company for Currency Exchange and Commerce

Owned by four brothers, Salih (35 per cent), Abdullah, Sulaiman (42 per cent) and Mohammad bin Abdul-Aziz al Rajhi, members of a Nejdi family from Bukairiyah in Qassim. Based in Riyadh, it has some 180 branches. Its deposits are second only to those of the National Commercial Bank. Investments of the partnership include a building materials business run by Abdullah, large areas of property, shares in most Saudi public companies and the Kingdom's biggest chicken company, Rajhi Sudais, in Qassim. The assets of the partners were estimated at SR 24bn in 1982 — though Saudi property values have fallen enormously since.

In June 1983 the company was given a licence to turn itself into an Islamic bank, in which the Rajhi family will have 50 per cent, its employees 2 per cent, a group of founders 5 per cent and the Saudi public 43 per cent.

Al Rajhi Trading Establishment

Established by Abdul-Rahman bin Salih al Rajih in 1973. Based in Dammam with some 30 branches, about half of them in the Eastern Province. Big turnover in foreign exchange drafts. Founder has reputation for conservative professionalism, in contrast to his brother Abdullah Salih.

Al Rajhi Commercial Establishment for Exchange

Established by Abdul-Rahman bin Abdul-Aziz al Rajhi, a much younger brother of Suliman Rajhi, in 1975. Based in Jeddah, with 22 branches, mainly in the west and south-west of the Kingdom.

Abdul-Aziz bin Mohammad Kaaki

Family from Mecca. Company based in Jeddah with three big and fairly independent operations in Jeddah, Riyadh and the Eastern Province. Along with Al Rajhi Trading and the Al Rajhi Commercial Establishment, the Kaaki business makes up a second category of exchanger after the big Rajhi company. The other dealers have much smaller foreign exchange turnovers.

The Kaaki family has a large and separate fortune linked to its 48 per cent shareholding in the National Commercial Bank. This is held by Abdul-Aziz Mohammad and two cousins, Saleh bin Mousa and Abdullah bin Mousa Kaaki.

Mohammad and Abdullah bin Ibrahim Subaie

Family from Nejd. Headquarters in Jeddah, with five branches in Jeddah, Riyadh, Mecca and Medina. Relatively small turnover of foreign exchange drafts because of small number of branches. Family has trading operations which are at least as big as its exchange business.

Abdul-Aziz bin Sulaiman Mukairin

Family from Qassim, based in Riyadh. Two branches in Riyadh, run by Mohammad bin Abdul-Aziz, and one in Jeddah, run by Fahd bin Abdul-Aziz. Most of the firm's activities involve dealing in gold and stocks and managing foreign investments for clients.

Ahmed bin Abdul-Qawi Bamoodah

Family from Hadhramaut, in what is now southern Yemen. One very big office in Jeddah. Big business in Yemeni remittances; also major trading in gold, wheat and rice.

Ahmed Hamad Algosaibi and Brothers

Family originally from Nejd, now based in Alkhobar with business confined almost entirely to the Eastern Province. The Algosaibi Money Exchange Bureau, established in 1960, is only a small part of the overall family partnership. The firm is owned by Ahmed, Abdul-Aziz and Sulaiman bin Hamad Algosaibi and has a major trading operation importing steel pipe and machinery. The exchange part of the business has the Saudi agency for American Express. It is linked to the family's foreign investment division and is gradually developing investment services on behalf of friends and associates.

As Sanea Company

Owned by the sons of Mohammad Ali as Sanea, who died two years ago. Family originally from Qassim. The money exchanging part of the business is not big, but the family has always been very liquid. It is very important in gold trading and it is now associated with several other exchangers in negotiations with Sama.

ABDULLAH SALIH AL RAJHI—BANKRUPTCY

THE affairs of Abdulla Salih al Rajhi, the Dammam money exchanger, whose business collapsed in 1982, are beginning to move towards resolution.

Abdullah Salih, a son of the eldest partner of the great Al Rajhi Company for Currency Exchange and Commerce, broke away from his family's business in the mid-1970s, when one of his brothers and an uncle also established separate operations.

In 1980 and 1981 he speculated wildly in silver and made the mistake, when he began to lose money, of chasing his losses. Eventually he ran out of money to honour the drafts he was selling to foreign workers in the Kingdom. At this point, in July 1982, the Government closed his establishment and put him under house arrest.

In addition to a large number of foreign workers and a few banks in east Asia which had paid the workers' drafts even though Abdullah's accounts with them were empty, several banks in London made losses in the $2m to $5m range. These included Mocatta and Goldsmid, National Westminster, Johnson Matthey and Thomas Cook.

A much bigger loss was written off by Kredietbank of Belgium, which was owed some $270m, only $80m of which was covered by silver in its vaults.

At the time of the closure the Saudi Arabian Monetary Agency (Sama) established a committee to liquidate Abdullah Salih's establishment and asked the accountant, Whinney Murray, to report on the state of the business.

After considerable delays—during which there were claims by Abdullah that he had more than enough private assets to pay his creditors in full—Whinney Murray early this year drew up a statement of the exchange's position as of December 31 1984. It was published in June.

The statement showed liabilities of $440m. The exchanger had cash balances, loans, deposits and property worth $57m. His accumulated losses, the difference between the two figures, were $383m—four times his customer deposit base.

Out of what assets it has, the liquidation board has first paid Abdullah Salih's employees and now is in the process of paying the bigger creditors a proportion of what they are owed. It is understood that the money is being distributed on a same-proportion-for-all basis, regardless of the mortgages that some of the foreign banks had, or thought they had, on Abdullah Salih's property.

For the small creditors, the holders of unpaid drafts, help has come in the form of a "volunteer, a maker of goodness," as the liquidation board announcement in June put it. This generous person, who is universally assumed to be Abdullah's father, who had disowned his son in 1980 when he found he disapproved of his business practices, has undertaken to pay the owners of all drafts of SR 10,000 (about $2,860) and less.

It is thought that the cost to the long-suffering father will be SR 150m ($42m).

Time to face Souk al-Manakh consequences

Kuwait Banks

CLIVE WOLMAN

THIS IS likely to be the year when the consequences of the Souk al-Manakh collapse three years ago catch up with Kuwait's banks.

No bank will be forced into liquidation. The support of the Central Bank through its discount window, loan and swap facilities is unconditional. It is likely to remain so in view of the Government's protective stance towards the financial sector and the political influence of the older merchant families who control the commercial banks.

But the scale of domestic loan losses for which provisions will have to be made in the 1985 accounts is likely to lead to fundamental changes in Kuwaiti banking practice.

None of the seven commercial banks was permitted to trade in the stock market during the boom or to extend credit using as collateral post-dated cheques or the shares of non-Kuwaiti companies traded on the Souk al-Manakh. Nevertheless, the banks failed to insulate themselves from the ripples after the stock market collapse.

Despite the limited absorbtive capacity of the Kuwaiti economy, the only bank to have diversified its loan portfolio abroad in a substantial way before the 1982 crash was the National Bank of Kuwait. And even it began to do so only in November 1981.

At the end of 1981, foreign loans and investments of all the commercial banks accounted for only KD 507m or 7 per cent of total assets, although deposits with international banks accounted for another 23 per cent.

The banks say that they have been able to build up the management expertise for foreign lending only slowly. Today, the proportion of foreign loans has nearly doubled as the domestic demand for credit has dried up with the deepening recession.

Within the domestic market, a high proportion of lending was on the basis of name and reputation. Formal loan manuals were used infrequently. As a result, even when the borrower said that the loan would be used for business purposes, it was actually risked on the stock market.

Many traders used their idle cash balances to speculate and leveraged their positions by buying shares not only with bank loans but with post-dated cheques at substantial premiums to the cash price.

Nor was a scrutiny of the audited accounts of potential borrowers necessarily of much assistance. One abuse for example was for a company to show high deposits without disclosing that the deposits were already being used as collateral.

A high proportion of domestic loans were secured against real estate or the equities of Kuwaiti companies. But in the immediate aftermath of the collapse in 1983 and early 1984, when the share prices were being sustained by continual Government purchases costing about KD 800m ($2.6bn), the banks were reluctant to seize the collateral of those who were not meeting their debt payments and to realise it.

During the 13 months after the Government withdrew its support in April 1984, the index of Kuwaiti share prices fell by 60 per cent. Bankers may have considered they acted prudently by demanding securities as collateral, the value of which was at least double the size of a loan. But share prices now are on average only one third of their value at the peak of the boom.

Moreover, stock market trading has been so thin that any large-scale attempt by the banks to realise their collateral would cause prices to plummet.

Out of necessity the banks have been forced to follow the stock market as closely as any trader, watching for opportunities to recover some of their loan losses. There has been a similar collapse in the Kuwaiti real estate market which, with a mass of empty office space around, seems unlikely to recover in the short term.

The situation has been aggravated by the reluctance of many debtors to meet their obligations to the banks even when they have the resources to do so, often in the form of foreign assets. These debtors have been waiting for the Government to intervene to lighten their burden, although the Government is insisting that there will be no further concessions. Their resolve to hang on was fuelled by the experience of those conscientious enough to settle their debts in full in the first year after the collapse before the Government wrote down the value of all post-dated cheques.

However, now that most debtors' financial positions have been clarified, the Central Bank has been prodding the commercial banks into enforcing their debts. The debts will be re-scheduled where possible but if necessary, says the Central Bank, debtors must be taken to court. A few well-publicised bankruptcies are necessary, it is assumed, *pour encourager les autres*.

At the same time, the Central Bank is laying down much tougher guidelines on making provisions for non-performing loans. The details are still being haggled over with the commercial banks. But the Central Bank says that once the rules are fixed, as they will be by the year end, they will be enforced rigidly with no exceptions. The rules will follow the U.S. model categorising dubious loans by the number of days debtors are behind with payments.

These guidelines will be followed up in 1986, say both Central Bank and Stock Exchange officials, by an insistence on higher levels of disclosure in the banks' financial statements.

This will mean the publication of half-yearly statements and may cut the amount of window-dressing around balance sheet date to boost the banks' assets. But the crucial issue, the banks' refusal to disclose transfers to and from their inner reserve, is unlikely to be tackled in the near future.

Thus the scale of the loan loss provisions this year and their effect on the banks' reserves will not be published. But the published profit figures are expected to show a much steeper decline than the 10 per cent average fall disclosed in 1984.

However, after so many profitable years shielded from taxation and foreign competition, the banks' inner reserves are assumed to be substantial, between KD 400m and KD 450m, which is more than their disclosed equity.

Of the seven commercial banks, the weakest two are assumed to be the Burgan Bank, which has the highest proportion of its assets in domestic loans and has passed its dividend for four years, and the Commercial, whose disclosed profits fell by 33 per cent in 1984.

Of the banks' total assets of KD 9.5bn, about KD 4bn is tied up in domestic loan portfolios. Of this about KD 2bn of loans are doubtful, outsiders estimate. Most of these are possibly held by only about 50 debtors owing up to KD 30m each.

Thus in the worst case, the banks' reserves would be wiped out. But long before danger point is reached, the Central Bank will inject liquidity into at least the weakest and most co-operative banks in the form of soft loans.

A probable injection of around KD 500m has been widely mentioned as part of a package being drawn up in which the banks could write off loan losses over five to ten years.

Another consequence for the weaker banks could be pressure from the Central Bank to cut their domestic operations, in particular their sprawling branch networks, and possibly to merge.

Setback for managers

Kuwait Investment Houses

CLIVE WOLMAN

KUWAIT'S capital surplus invested overseas, $80bn of Government money and probably another $80bn privately owned, is the largest per capita in the world. It has been barely dented by the collapse of Kuwait's stock market over the last three years and the debts run up by the market's most active investors.

Yet the reputation and morale of its professional investment managers has plummeted as the losses suffered by their companies mount.

Many investment companies set up by wealthy individuals, particularly those incorporated outside Kuwait but traded on the Souk-al-Manakh, have been wiped out over the last three years.

Even companies with a reputation for strong professional management have been struggling. For example, the Gulf Investments Company, incorporated in Bahrain, was forced to liquidate almost all its equity portfolio to pay off debts as a result of adverse currency fluctuations and the Kuwait stock market collapse.

According to Gulf chairman, Mr Sabah-al-Rayes: "An investment manager must have known that the bubble would burst. But with everyone making at least 50 per cent profits a year, and maybe 300 per cent, we were under great pressure. You cannot tell your clients: 'I do not believe in the market.' You would lose your job. You start to question your own judgment when everyone else is doing the opposite."

The Euro-Kuwaiti Investment Company, one of Kuwait's few exclusive equity funds, is in a similarly serious situation. It suffered large losses on its Kuwaiti shares and has had to write off substantial debts on the post-dated cheques of Souk al-Manakh traders which have not been honoured.

The company is left with debts to the banks of about KD 7.5m ($25m). Although its net worth remains positive it is unable to liquidate its stock market investments for fear of driving down the price.

The stock market slump has also harmed the "three Ks" who dominate Kuwaiti professional investment, controlling about three-quarters of all assets under management. The three companies, the Kuwait Investment Company (KIC), the Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) and the Kuwait International Investment Company (KIIC), have a role somewhere between an investment trust, a project financier and a merchant bank or U.S. securities house. All three disclosed large losses in their 1984 accounts.

The shareholders in the oldest company, KIC, have seen their equity almost halved over the past two years, primarily because of provisions made against the bad debts of Manakh traders. Its losses rose from KD 20m ($70m) to KD 32m ($112m) in 1984 but it says no more Manakh debt provisions will have to be made. Before the 1984 accounts, it is believed that none of the Ks had made adequate provisions against Manakh debts.

KIC's main response so far has been to cut staff drastically and close departments. But speculation has mounted that the Government may force it to merge with KFTCIC. The Government has majority stakes in both companies, of around 65 and 95 per cent respectively. Such a merger to create a company with assets of nearly KD 1.2bn ($4bn) would, however, reduce further the already limited competition to manage the savings of Kuwaitis.

KFTCIC has in any case had its independence curtailed progressively over the past three years, being used as a medium for Government intervention in the stock market and for investing Government assets which are being used to help settle Manakh debts.

It moved into portfolio management only in 1980 and until last year relied mainly on Western expertise. Its losses in 1984 came to KD 26m ($91m), albeit on shareholders' equity nearly double that of KIC.

KIIC, which was set up as a private sector venture although the Government has a 20 to 25 per cent stake, made the cleanest sweep of its Manakh bad debt provisions in the 1984 accounts. This turned a KD 3.3m net profit (up on 1983) into a loss of KD 10.7m. It suffered from being forced to accept shares in lieu of cash from hard-pressed debtors only to see their value slump.

Its portfolio management is generally considered to be the most sophisticated in Kuwait. However, KIIC has been changing its equity investment strategy.

Over the last five years, it has gradually been switching more of its equity portfolio abroad. Also in recent months, its approach has shifted away from short-term trading to stock selection based on fundamental research with an investment horizon of about two years.

KIIC also manages portfolios other than its own for institutions and individuals. "Small" investors, which in Kuwait means those with less than KD 100,000 ($350,000) to invest, are however excluded. *Many of Kuwait's investment* institutions adopt a similar policy even though the losses suffered by small investors in 1982 Manakh collapse might have made them more willing to rely on professional management.

Kuwaiti law does not allow directly the establishment of unit trusts (mutual funds) although several of the commercial banks have been considering ways of setting up such funds. But KIIC deputy general manager Mr Fuad al Bader, in *charge of portfolio* and investment, has doubts about such ventures. "Kuwaits worry too much about their investments and are used to seeing only profit," he says. "Private clients would keep on telephoning us every day asking what we were doing and if we made a loss on one day they would get upset. We could not get away with just monthly reports."

Some foreign investment managers, for example the UK's Save and Prosper, have attempted to sell their own unit trusts and other investment vehicles in Kuwait through local advisors but so far with little success.

The most ambitious experiment in investment management in the Arab world is the Gulf Investment Corporation set up two years ago by the Arabian Gulf States Cooperation Council (GCC) with subscribed capital of $2.1bn. The management, based in Kuwait, recently asked the GCC governments to pay another $120m bringing the total paid-up capital to $540m.

The long-term aim is to build up a staff of 400 to 500 and devote half the capital of the company to long-term project finance and the rest to portfolio investment. The Gulf region will be given priority. A subsidiary objective is to develop locally investment expertise and a unified capital market.

But nearly all the money has so far remained in liquid assets and only $150m is committed to projects. According to chief executive Dr Khaled al-Fayez, the former general manager of Gulf International Bank: "I believe in the importance of systems and internal controls. We have to get the set-up right before we invest money. After everything that has happened in recent years, we have to go cautiously."

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ARAB BANKING 8

On this and the facing page, **Caroline Montagu** looks at the investments of Gulf governments

Showing the strain of decreased oil revenues

THE Gulf governments have been showing the strain of decreased oil revenues. However, Abu Dhabi, Kuwait and Qatar have maintained, if not increased, their reserve assets.

Saudi Arabia alone of the countries has had to draw down its reserves very seriously, by some $24bn in 1984. In the face of Saudi Arabia's increasing deficits and lowered reserve assets, the other three states are feeling a degree of brotherly embarrassment.

Though they have to fund any government deficits from their reserve funds, none of them has suffered such a proportional drop in oil revenues as Saudi Arabia. Saudi budgeted expenditure, too, is of a totally different magnitude.

Throughout the Gulf there are calls for government policy statements on the management and levels of the various reserves. Businessmen are concerned that with no let-up to the slack oil market in view, over the next few years these countries will have to continue to spend from their reserve funds. Only in Saudi Arabia's case is the situation considered to be becoming critical however.

The debate also takes in the countries' different policies towards investment. At issue is the fine line between investing for the longer-term future — the heritage argument—and maintaining liquid funds for government drawdowns.

At one end of this spectrum is Kuwait's long-term strategy; at the other Saudi Arabia needing cash injections for the economy, and currently running down its reserves by $1.5bn a month.

In the middle are Qatar and Abu Dhabi; Qatar soon to require funds for the North Field gas development and Abu Dhabi whose funds have to shore-up the whole United Arab Emirates.

Saudi Arabian Monetary Agency

FOR SAUDI ARABIA, as well as for the great host of Saudi watchers, late 1985 must seem light years away from a 1981 statement by the Finance Minister, Sheikh Muhammad Abalkhail, that the country wanted a surplus "at the very least equivalent to twice our annual foreign exchange needs."

The IMF's latest *International Financial Statistics* (IFS, September 1985) gives Saudi Arabia's current account deficit at $24bn for 1984. Goods imports totalled $28.6bn, services $45.2bn; exports were $37.4bn, investment income $17.6bn with $5.2bn transfers making up the sum. Current estimates put total reserves no higher than $100bn.

This is a very sorry story for those managing Saudi Arabian reserve assets, the government's only source of funds other than current revenues. The latest reporting by the Saudi Arabian Monetary Agency (Sama) to the IMF on the foreign assets (February 1985 just before the start of the kingdom's fiscal year 1985-86) gave a figure of $113bn, well down from 1983s all-time high of $137bn.

Since last February, however, the government has been apparently drawing down at the rate of $1.5bn a month. The foreign assets figure excludes the assets of the state oil companies, Aramco and Petromin, and those of the Saud family.

There is no precise method or computer model to chart the rate of erosion of the Saudi foreign exchange reserves.

The reserves are affected by Saudi Arabian budget and trade deficits. To fund the government or sell dollars to the commercial banks Sama will either draw a dollar cheque on a U.S. account or a riyal cheque. Though government payments on budgeted expenditure will include many riyals, more than three-quarters of government spending is estimated to leave the country in foreign exchange sooner or later.

This, coupled with commercial bank dollar purchases, is a continuing drain on the foreign reserves, so as a rule-of-thumb a deduction of government drawings from Sama's known foreign deposits will give the level of the reserves.

The foreign exchange reserves are now estimated to stand between $90bnand $100bn of which the interest earning assets are about $60-$70bn. The rest comprises political loans, such as funding for Iraq and other Arab states, and other non-commercial assets. Of commercial assets some $50-$60bn is fairly liquid.

Government revenues for fiscal 1985-86 are unlikely to reach the budgeted $56bn, presaging another large current account deficit.

The Saudi government has taken some steps to help itself by cutting government expenditure. But only really big increases in crude oil revenues could improve the 1985-86 current account — to which the high and recurrent level of services imports will continue to contribute.

One suggestion, much canvassed at the moment in Riyadh, is that Saudi Arabia, as a highly credit-worthy country, will soon go to the capital markets. Yet the tone of the public debate on this issue is mixed and emotional. For orthodox Muslim, Saudi Arabia borrowing through a loan could be seen as shameful and against the Shariah (Muslim law), on much the same religous grounds as the prohibition of interest.

The expatriate community appears more worried about the economy than Saudi individuals and is hoping for some government statement on policy towards the reserves. The government, however, still appears a long way from wanting to raise a Eurocredit.

Since the government began tapping the reserves in spring 1983, the main sales have been in dollar-denominated assets. Over fiscal year 1983-84 dollar drawdowns totalled some $8-$9bn and, according to *Institutional Investor*, after the announcement of a deficit budget in April 1984, with drawdown needs estimated at $14bn, Sama drew down $1bn a month of dollar assets and $300m on non-dollar assets for the first five months.

Faced with the old problem of choosing foreign exchange or income losses Sama opted for the latter, selling dollars in preference to D-mark or yen.

Sama managers have had to react to a situation which arose fairly abruptly. But as Saudi Arabia will continue to run a deficit for the medium future—without truly radical changes in oil and the domestic economy or in the world oil market — some proactive policy will be required and a more open analysis of how long the reserves will last if the current level of drawdowns contines.

Sama's invetment policy has always been conservative, aiming for low-risk management liquidity, safety and confidentiality. A fundamental difference exists between Sama's investment policies and those of, say Kuwait or Abu Dhabi, both of which have seen their reserves as a heritage fund for the future.

But Sama, has invested the reserves in mainly liquid or easily realisable assets as "deferred" development expenditure; and if Kuwait behaves like a pension fund Sama has behaved like a central bank.

Sama's heavy weighting of the dollar in its portfolios has reflected these policies. Up to the 1979-80 second round of oil price increases the dollar had been far and away the leading investment currency.

By 1979, however, before the Carter Administration's freeze of Iranian assets in the U.S., Sama had decided to diversify into more of a multicurrency reserve system. Sama had been looking at the period to D-mark denominated claims and to investment opportunities in Japan.

Only after West Germany and Japan went into current account deficit in 1980 did their governments become receptive to external investment Sama bought more than DM1bn of government notes and invested in Japanese government bonds to a total of some $11bn by March, 1983.

When Sama began selling in April, 1983, the dollar represented some 64 per cent of the $118bn portfolio, and the yen and Deutschemark another 20 per cent between them. The move into SDRs had followed Saudi Arabia's 1981 agreement with the IMF whereby Saudi Arabia made an SDR 8bn loan.

Also in 1981 there was a slight shift in policy towards a better yield at the expense of liquidity on a part of the assets. Rate of return, however, has never been emphasised by Sama as a key investment consideration, possibly because of its low-key and conservative management policies or in deference to social and religious scruples on interest.

The main instruments have been government securities of various kinds, bonds, bank deposits. U.S. Government securities have fitted neatly Sama's criteria: low risk, easily liquid, dollar denominated while the U.S. rules on disclosure have ensured a high degree of Saudi anonymity.

From the start of drawdowns, however, Sama stopped automatically rolling over bonds and interest and began putting investment into shorter maturities. CD and time deposit maturities were also shortened.

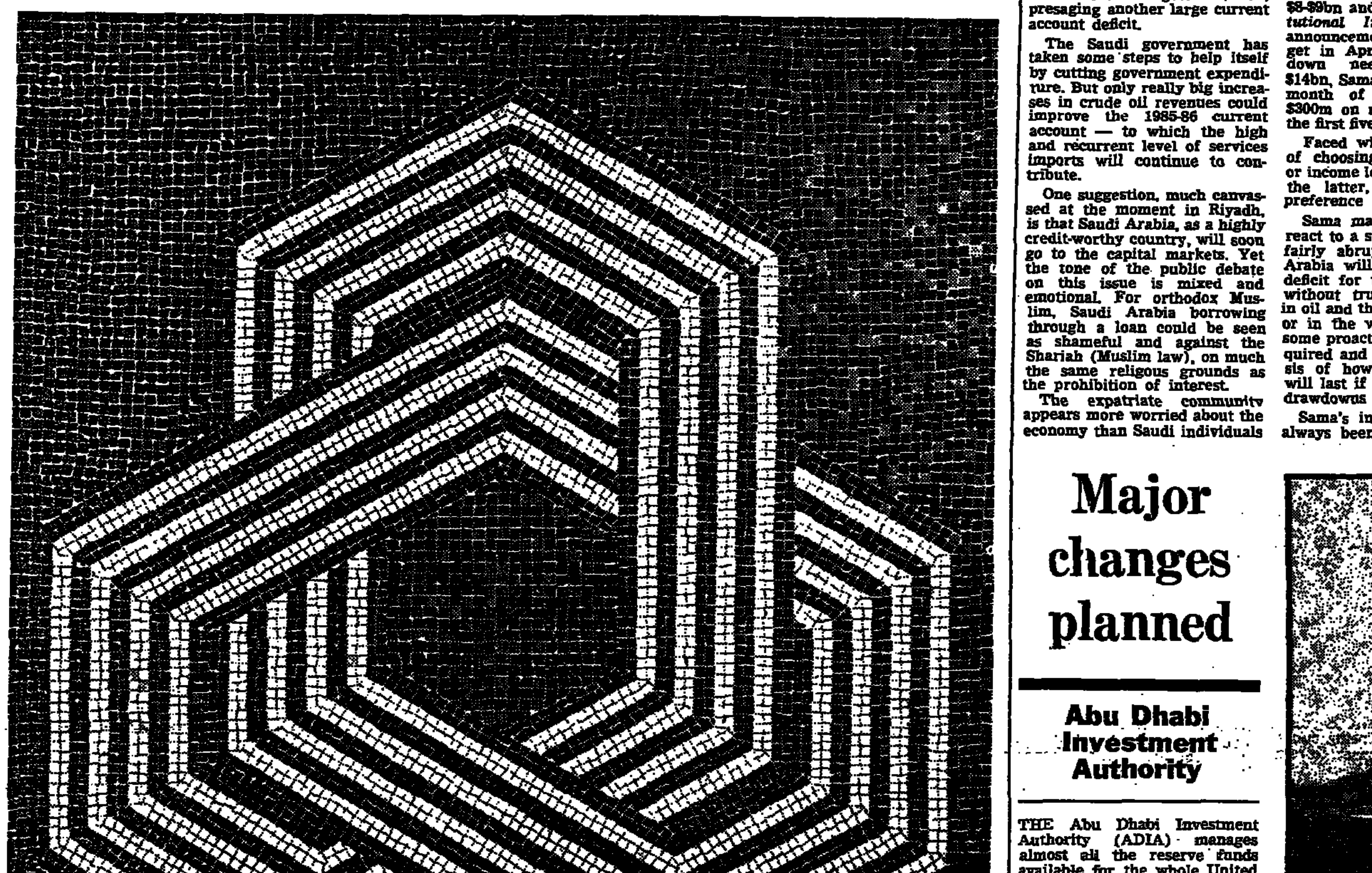
Sama has made no major investment policy changes since 1983 and its portfolio is now considered adequately liquid and properly diversified. Maturities will, of course, shorten when cash is tighter.

But Sama has probably been lucky: its conservative policy of buying and holding has served it well, particularly since big buying in the early 1980s coincided with a period of high interest rates.

The debate about the heritage aspects of Saudi Arabia's investments continues, however. Sama has always been shy of major investments in equities, though it has picked up debt of some U.S. blue chip corporates such as IBM or AT&T.

Sama may have yielded in part to the heritage lobby and be running separate equity portfolios with longer-term objectives and possibly under separate management.

Any major adjustment of the reserves investment policy, however, would reflect a change in Saudi government economic thinking, of which there is no evidence.



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Abu Dhabi Investment Authority

THE Abu Dhabi Investment Authority (ADIA) manages almost all the reserve funds available for the whole United Arab Emirates (UAE).

UAE reserve investments are controlled on an emirate, not Federal, basis; thus, the investments of Abu Dhabi, as the only capital-surplus emirate, are the key reserves for the future and for current Abu Dhabi and Federal Government needs.

Estimates of the total reserves under ADIA management vary. A figure given by official sources indicate assets of between $14bn and $17bn, by which is meant the commercial investments and excludes non-commercial loans to other Arab states and funding for the other emirates.

Other sources would suggest the reserves might be well over $20bn. ADIA has had a difficult time, however, since parts of its income have had to go to support the government as oil receipts have declined. Demands on ADIA funds tend to increase all the time, it says.

ADIA, which took over from the old investment board in 1976, plans major changes in its internal organisation from the beginning of next year. Its present organisational structure has remained roughly intact since it was established and now with 10 years of experience and increased professionalism ADIA needs to streamline its organisation.

This will involve different divisions of labour, reorganising its departments and an increasing number of local executives. At present there are five: commodities, local and Arab investment, real estate and acquisitions, bonds and equities, and finance and administration. These will go, but the new departments will continue to reflect the different types of investment. Changes in the responsibilities of senior management are also planned.

The authority's board is also likely to see some changes. The term of office of the board, in fact, expired earlier this year and has not been yet reconfirmed.

At present the board consists of senior members of Abu Dhabi including Sheikh Khalifah bin Zayed, the chairman and Abu Dhabi's heir apparent; Ahmad Suwaidi, deputy chairman and formerly closely involved with Abu Dhabi's foreign policy; Sheikh Surour bin Muhammad, chairman of the central bank; Sheikh Tahnoun bin Muhammad, the Governor of al-Ayn; Mana Otaiba, Federal and Abu Dhabi Petroleum Minister and Adnan Pachachi.

The existing senior members of the board are not likely to change. What it needs are additional members. It is now under strength, having already lost certain members who have not yet been replaced.

Of the total funds under the authority's management about a half are looked after internally by ADIA portfolio managers and half by managers in international institutions. Only an insignificant volume of funds are now managed by any local banks as ADIA does not consider that they have enough international investment experience.

The discretionary managers run either single-currency or multicurrency accounts. ADIA investment policy guidelines to its managers are pragmatic, reflecting what the market is doing and, in what it considers times of change, the need for increasing flexibility and active response to market.

An increase in multicurrency accounts has been the result. ADIA has always invested heavily in the dollar, taking a long-term strategic view of the dollar's role and of the U.S. economy.

Some of ADIA's sterling assets are now managed by its office in London, which has apparently been going through a trial period; but ADIA is understood to be satisfied with its performance. This office has also been in effect an experiment by ADIA to test whether the authority should have a presence in the major markets.

ADIA finds it hard to maintain a "feel" for them from Abu Dhabi and it might, if London is successful, offset this disadvantage by setting up branches in other financial centres.

The authority has always kept substantial liquid funds immediately available for upcoming investment opportunities and to meet government funding needs. Given this existing policy, and in spite of lower oil receipts, ADIA has not so far had to change its liquidity policies.

But the continuing need to support the Abu Dhabi government influences ADIA's thinking on its level of short-term funds and is the reality the authority has to face.

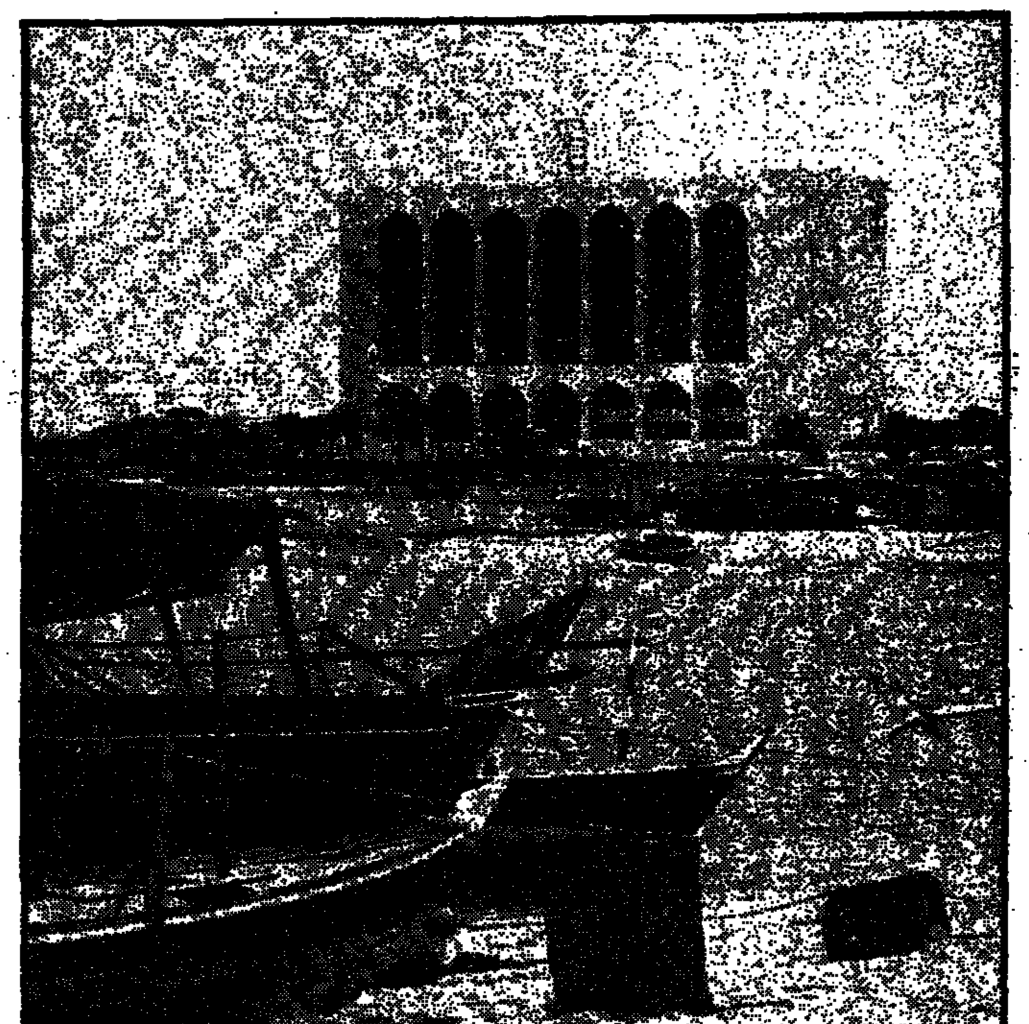
ADIA's view of its own investment strategy is that the Emirates' pension fund and its investment decisions should as far as possible reflect its role.

Unlike Kuwait, however, it has never heavily invested in long-term equities, although ADIA has recently been examining seriously the issue of more direct investment; and, through its 50 per cent holding in International Petroleum Investment Corporation (IPIC) has opted for it in the oil sector.

Owned equally by ADIA and the Abu Dhabi National Oil Company (ADNOC), IPIC is Abu Dhabi's answer to the Kuwait Petroleum Corporation and its vehicle for ensuring oil market security.

IPIC is looking to invest downstream at the end-user stage of petrol filling stations and also in refineries. The countries targeted are primarily the U.S. and then West Germany, Belgium, Italy and, according to recent reports Japan.

For the most part ADIA has bought and sold equities to take advantage of market opportunities—not to have and to hold—and it has preferred not to have strategic stakes. Its 9.2 per cent stake in Reuters, where it now has over 5 per cent of the voting power, is a notable recent exception.



Central Bank in Abu Dhabi. Reserve investments of the UAE are controlled on an emirate, rather than a federal basis. The investments of Abu Dhabi, as the only capital surplus emirate, are therefore the key reserves for future and current needs of both Abu Dhabi and the Federal Government

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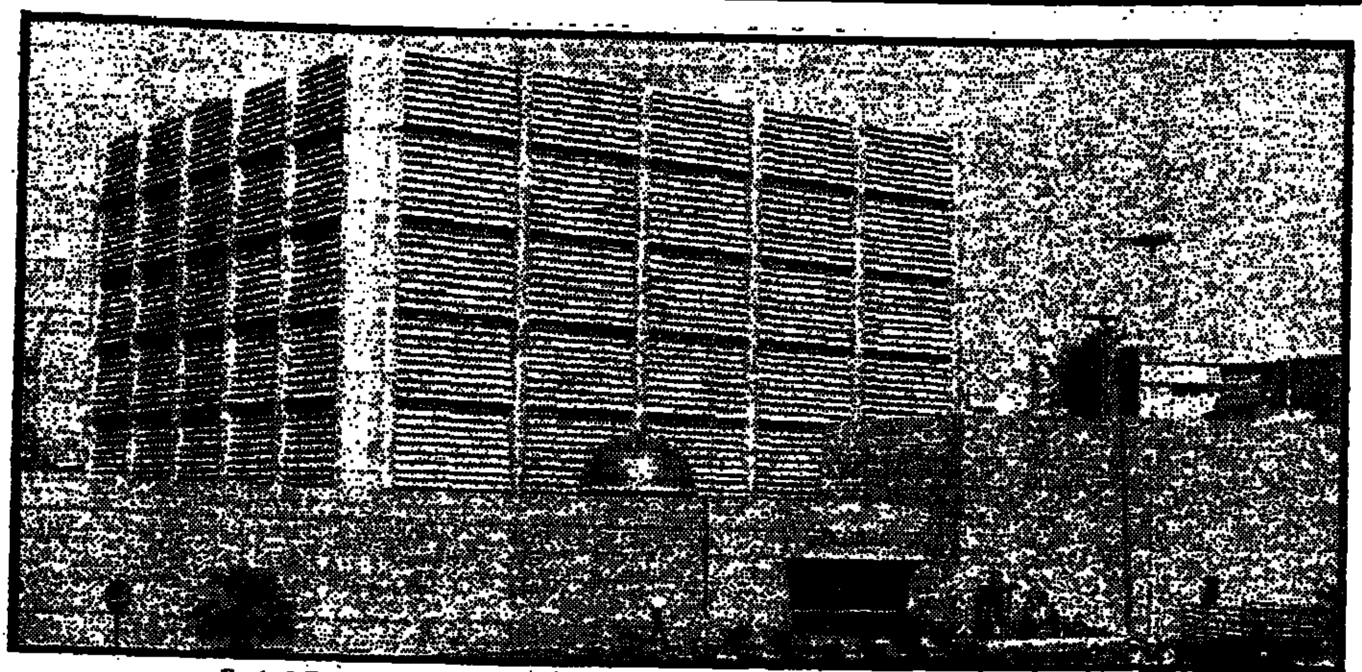
ARAB BANKING 9



Central Bank of Kuwait. Board members of the KIA include the Central Bank Governor

No change in KIO activities

Kuwait Investment Authority

The TOTAL reserves of the Kuwait Government are estimated at some $80-90bn, still a large figure because falls in oil revenues, which might have led to drawing on capital, have been balanced by increases in investment income.

The total figures, however, have to be taken in the context that they include some $30bn of non-realisable reserves. These include the capital of the Kuwaiti state companies, such as Kuwait Petroleum Corporation, Kuwait Airways, Kuwait Foreign Trading, Contracting & Investment Company (KFTCIC), Kuwait Investment Company (KIC) and the Kuwait Fund for Arab Economic Development (KFAED). Also within the $30bn is a raft of inter-Arab loans, including sums lent to Iraq to fund its war with Iran and which nobody expects to be recovered.

The other reserves are handled through an umbrella organisation, the Kuwait Investment Authority (KIA), which, from a slow start began to function fully in 1984. KIA answers to the Finance Minister, Jasim al-Khorafi, and then to the Council of Ministers.

The proposal to establish an Authority in Kuwait in order to oversee reserve investment policy stemmed from Abdlatif al-Hamad's tenure as Finance Minister in 1982. At the time plans existed to import outside advisers and have more of the decisions of the extremely successful London-based Kuwaiti Investment Office (KIO) made in Kuwait.

The Kuwaiti Parliament supported the scheme, not least because it saw this as a means of curbing the multibillion KIO's apparent autonomy. Shaikh Ali Khalifah, the Oil Minister who took on the Finance portfolio and the half-completed scheme after al-Hamad's resignation made the best of a bad job. He let the establishment of the KIA continue, but without outside advisors, and added instead the Finance Ministry's investment department.

The Authority is chaired by the Finance Minister or, in his absence, the vice-chairman who is the Oil Minister. Board members include, ex officio, the Central Bank Governor and the Under-secretary at the Finance Ministry. The board has three members chosen in their own right and who should not be government employees. One of these is the Authority's managing director, Dr Fahd al-Rashid from Kuwait University, and another Shaikh Fahd Muhammad al-Sabah, the KIO's chairman. He sits on the board as an individual, not ex officio, but—anomalously—is a government employee.

At the time of setting up the Authority, there was considerable speculation about the relationship between it and the Investment Office in London.

KIO has been in London since the 1960s, with considerable autonomy and a successful track record in its active management of a $20bn-$30bn investment portfolio.

Discussion centred on whether KIO would lose its independence of action, and whether a range of investment decisions would be made back in Kuwait, when it became formally employed by the Authority.

Realities of time and distance prevailed. The office offered to send telexes continuously for immediate portfolio management decisions in Kuwait. Faced with the prospect of sheaves of telexes requiring instant attention, it was accepted that to be an active manager 3,000 miles away was physically impossible, as was the task of being an active manager in London awaiting decisions from Kuwait.

Even given that during al-Hamad's tenure at the Finance Ministry sufficient thought or, indeed consultation, had gone into how to make the KIO more accountable to Kuwait on a day-to-day basis, tampering with its decision-making structure would always have been questionable.

The KIO is a unique organisation. Unlike other comparably big investors, such as the Prudential Insurance combine or Morgan Guaranty, it is a multibillion investment agency whose management is wholly internal, and small.

Since the KIA started, there has been no genuine change in KIO activities or authority. The Kuwaiti local press and parliament continue to criticise it, as recently over its role with whisky manufacturers, Arthur Bell, because of the Muslim prohibition on alcohol. But the autonomy of KIO is a result of its own efficiency and of the reputation of its chairman, Shaikh Fahd.

Of the total commercial reserves of some $50bn-$60bn KIO manages about half. The other half is managed by different international banks in various markets. Portfolio managers in the industrialised world include Chase Manhattan, Citibank and Morgan Stanley in the U.S., Dresdner Bank and Commerzbank in West Germany, the Industrial Bank of Japan in Japan and other banks in the French, Dutch and Swiss markets.

They run portfolios basically only for local markets and report direct to the Authority in Kuwait. Within Kuwait and the Gulf region portfolios are managed by local Kuwaiti banks, KFTCIC, KIC, the Kuwait Real Estate Company and by Gulf Banks, such as the Al-Ubaf Group and Gulf International Bank.

Among all these institutions the U.S., West German and Arab banks, in that order, have the biggest concentrations of assets under management. The Office in London keeps a watching brief on their performance and has consistently outperformed external managers over the last three years.

Government assets have always been invested long term, in equities, bonds, real estate and fixed rate securities. Kuwait has always held to the principle of a heritage fund for the people and never seen the need for major liquid investments. Indeed, it no longer has large funds on deposit, though at one time much of the U.S. portfolios were very liquid.

Given the present state of budget deficits (likely to run at over $2bn for 1985-86), there has been a mild shift in policy. All portfolios are being run to ensure they can meet Government demands for liquid funds and every manager has to keep a proportion of funds liquid. Government dollar needs met by the KIO have not led it to run down its dollar holdings. Contrary to popular belief, market conditions will determine which currencies it sells, though the Government will receive dollar payments.

The Government ownership of the commercial reserve assets are split between the General Reserve and the Fund for Future Generations (FFG), set up in the 1970s as a hedge for the future.

By law the FFG must receive 10 per cent of oil revenues annually. Its income is reinvested and none of its assets can be touched till 2001.

Since the FFG has to grow every year, it has a larger and very different portfolio from the General Reserve. The FFG holds the major part of Kuwait's most prestigious investments in the industrialised world: Hoechst, Volkswagen do Brasil, Daimler Benz, Metallgesellschaft and most of KIO's equities including its three flagship companies, St Martin's Property Corporation, Autobar Group and the Hays Group.

The General Reserve has much of the Arab, local and regional investment.

The KIO has to be seen as an international fund manager that happens to be located in London. It is primarily an equities office, with about 20 investment managers for different markets, a general manager, his deputy and two chief investment managers. It has always maintained an extremely low profile—a policy that cuts both ways. More public discussion of its success and investments would undoubtedly fuel adverse comment in both Kuwait and probably London. On the other hand, it is a successful Government institution in a country whose morale has suffered from domestic and external factors.

KIO's $2bn-$3bn investments in different markets are split as to: the U.S. 30 per cent, Japan 20 per cent, UK 18 per cent and West Germany 15 per cent. Other European countries, the Far East, South East Asia and Australia make up the balance.

The KIO went into Japanese equities very early and by the time of the press stir on Arab investment in Tokyo was already selling. In the UK its equities and bonds holdings lie between $2bn and $4bn with its holdings in stocks and gilts at $2bn-$3bn. World wide its two biggest investment instruments are equities and bonds, followed by real estate and then direct investment. The direct investment (i.e., wholly-owned companies), is mainly in the UK and Europe, for management reasons, and concentrates on services for the consumer market, and manufacturing for the same services.

The KIO has developed three wholly owned holding companies for the main sectors of its direct investment activities. One is St Martins Property Corporation, and another the Hays Group, a conglomerate formed from the old Hays Wharf group with additional direct investments.

Hays Group activities include oil and petroleum storage and distribution, chemicals, shipping, packaging and distribution, cold storage and other technical and business services.

The third holding company is Autobar, a private company purchased in 1982, it is involved in the fast food business, providing both services and manufacturing in the UK and the Netherlands.

In good shape and efficiently run

Qatar Investment Board

QATAR has a reputation for good economic management and for having resisted overspending.

"Relatively speaking, Qatar is in the best shape of the countries down there," commented a U.S. banker. By general consent too, the government reserves have been carefully husbanded and the Qatar Investment Board (QIB), the Government agency overseeing and directing the reserves investment, has done an efficient job.

The total assets of Qatar have kept their level over the past period of declining oil revenues. It is believed total reserves are something over $8bn, though othe restimates are as high as $10bn-$12bn.

Of these reserves a third is kept liquid and the other two thirds invested in the region and in commercial investments worldwide. Of the $5bn-$6bn longer term assets, around $4bn is invested on the international markets, and the balance in the region.

Roughly $3bn liquid investments are predominantly in the U.S. dollar with holdings in the D-mark, yen and sterling according to the needs of the Government. Further short-term funds, primarily for Government needs, are invested through the Ministry of Finance.

Some of the regional investments are inter-Arab loans, including funds for Iraq, which at a low level are still going through.

The commercial investments are mainly in equities and bonds and fixed income securities. The split between markets in the commercial investments (excluding the regional or domestic investments) is 40 per cent in the dollar, 20 per cent in the D-mark, 18 per cent in the yen and the balance between Swiss francs, Dutch guilders and sterling. The Canadian dollar and the French franc holdings have been liquidated.

Equity holdings vary according to sector and country, though only invested in blue chip companies.

In the U.S. the Board has concentrated on investment in chemicals, food, services and banking; in Japan in companies catering for the dometic market and has been scaling down investment in export orientated stocks. In West Germany emphasis has been put on the automotive and electrical and electronics industries. The Board is not interested in real estate as an investment vehicle.

The investments in these markets are run by a number of portfolio managers, whose numbers vary according to market conditions and to the Board's policies for different currencies. There are normally about 15-20 managers. They come from the major well-known international banks and investment companies, and are appointed to invest in their own currency only. The Board has no mixed portfolios ot accounts.

On policy the Board has to walk a tightrope between the demands for a heritage fund and current needs. Investment has to take into account the budget needs and the level of crude oil sales. The Board wants its investments to be ready and available against lower or small crude oil sales, and by this is meant both the present contingencies of oil revenue downturns and the post-oil period.

However, the impact of the North Field gas development programme, whose first phase alone will cost between $1.5bn and $2bn, is affecting reserve investment policy.

The Qatari Government will have to raise part of the financing. This funding the Qatar Investment Board confirms will have to come from reserve assets. The need for capital for the North Field has therefore led the Board to increase its liquid or short-term holdings.

The Board is composed of Sheikh Abdul Aziz bin Kalifah, Minister of Finance and Petroleum and eldest son of the Emir; Abdel-Kader Qadi, director of the finance department of the Finance and Petroleum Ministry; Dr Hassan Kamil, long standing legal adviser; and Issa Kawari, Minister of Information and much involved in the ruler's private offices. There are three foreign advisers to the Board.

It meets every quarter with the foreign advisers in attendance and passes instructions through to the Investment Division of the Finance Department.

The Investment Division is run by Abdullah Shawabkeh, Controller of Investments end acts as the Secretariat of the Board. It also manages the short-term Finance Ministry funds.

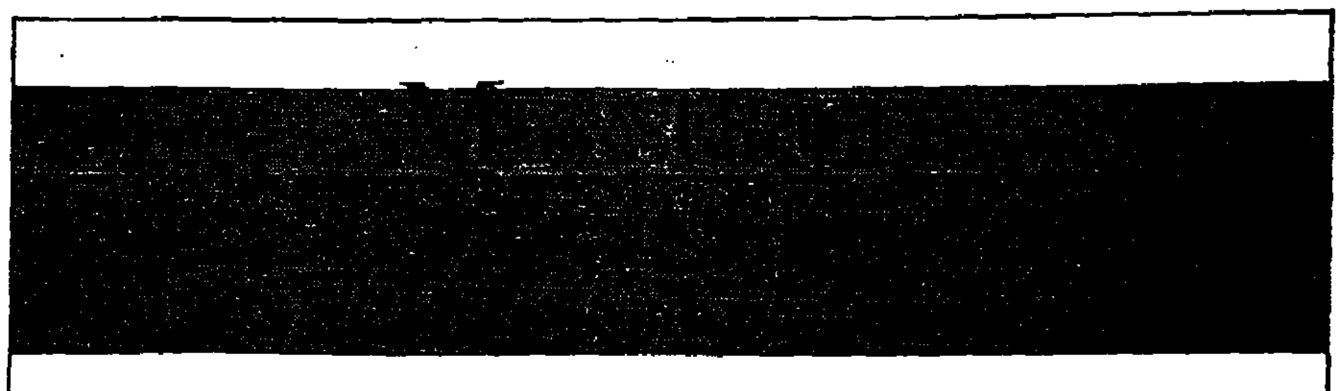
The fund managers attend a twice yearly meeting with the Board to discuss policy end consider their guidelines. The Board, however, keeps closely in touch with its fund managers who can telephone at any time to discuss changing the guidelines in the light of market conditions.

The Board allows its managers full discretionary powers and expects consequent professionalism and strong market consciousness. At the twice yearly meetings the Board gives all the managers the results of all portfolios and a pecking order of performance. Last year, ending June 1985, one of the U.S. managers came out top with a 31 per cent increase in assets.

Since 1983 the Board has added an extra foreign adviser to the existing two. At present the nationalities of the advisers are Swiss, U.S. and, as the Board puts it, "multinational."

They are brought in to advise on currencies, their proportions, the asset mix, types of names in the equity and bond markets and on general market-specific financial and economic information.

The Board has clearly not been wholly satisfied over the years with their performance and as its own experience in the marekts has grown has tended to do more of its own evaluation.



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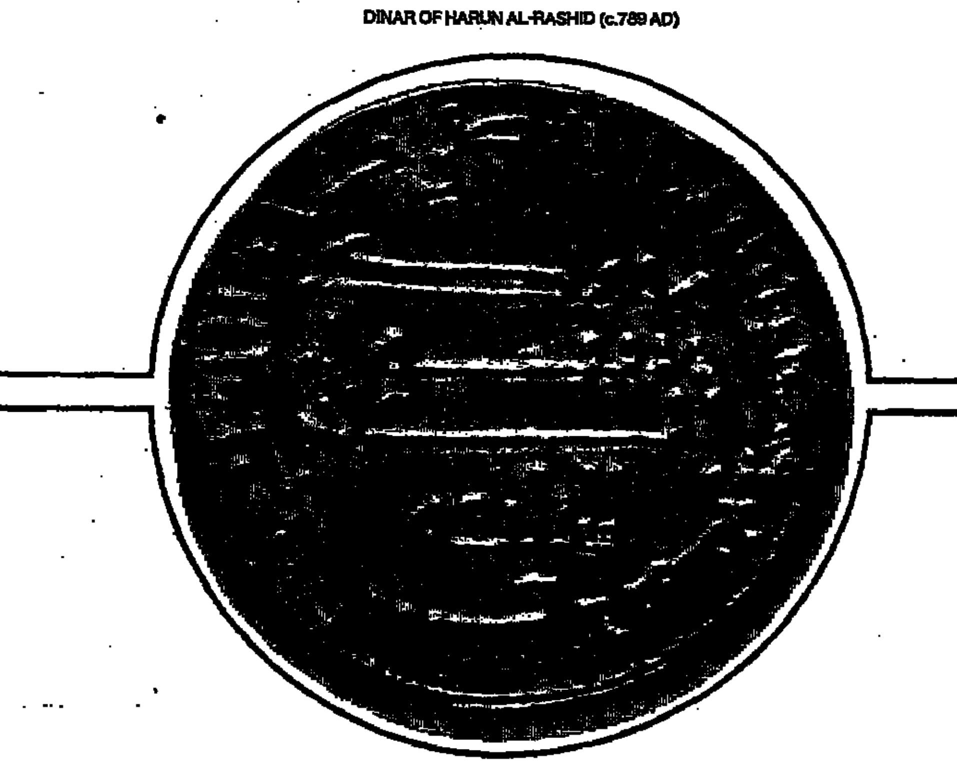

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Emphasis placed on domestic market share

Arab Banks in New York

MARY FRINGS

TO A much greater extent than in London or Paris, Arab banks in New York are attempting to capture a share of the domestic market.

Wholesale banks have hired U.S. credit and marketing officers to canvass major corporations with interests in the Middle East, as an entree to their wider funding requirements, while retail banks have centred their efforts on smaller companies and Americans of Arab origin.

It is still too early to judge whether they will make any real headway, or whether they would do better to stick to treasury and clearing operations for their own organisations, correspondent banking and trade financing, even though the latter has been hit by Middle East recession and the strength of the dollar. The U.S. real estate market has proved to be a minefield and all but the specialised investment banks have learned to steer clear of it.

With the exception of UBAF Arab American Bank, which is a full-service U.S.-incorporated bank of nine years standing (and the only one to represent every Arab country in a Gulf-dominated banking community), most of the Arab banks are relatively new to the U.S. or have recently changed their status to become active in the market.

BCCI, for example, upgraded from representative office to New York State Agency in October 1983 but counts itself as fully operational only from the start of this year, while 20 others have come in since 1980 on the back of the Gulf oil boom.

It has not taken any of them long to realise that the obstacles to rapid and profitable growth are formidable, starting with the presence of 15,000 U.S. banks and another 300-400 foreign competitors.

In the short-term, the top end of the world's richest and most exciting market has proved almost impenetrable, partly because of the growing trend for major U.S. corporations to reduce their dependence on bank financing by issuing their own Euromarket bonds, and partly because the U.S. money-centre banks have followed their customers to the Middle East and continue to service them there.

According to one New York banker, Fortune 500 companies only call on Arab banks for transactions in what they regard as "difficult" countries such as Libya, Syria, Yemen, Somalia and Sudan.

As a result, the bigger Arab banks are less ambitious than when they started, and are pursuing different strategies. A number of heads have rolled, either because of initial mistakes in recruitment, disagreement over what the objective should be or—occasionally—because branch managers wanted more autonomy.

"You can't blame Arab banks for not giving their U.S. managers a freer hand," comments Mr Munir Barakat, a director of the three-year-old Arab Bankers' Association of North America and Gulf regional head at UBAF Arab American Bank. "This is a new and risky market for them. They hear of bankruptcies every day and they get very nervous."

UBAF itself has not been immune to management turnover, and in one view it suffers more from the "rule by compromise" endemic in many consortium banks than from the problems of referral faced by non-autonomous branches. Dr M. M. Abushadi, chairman of the $10bn (assets) UBAF Group, said in April that return on equity in UBAF USA remained lower than expectations.

The American bank's 1984 report shows shareholders' funds of $104m and total assets of $1.2bn, down from $1.5bn the previous year. Net income fell from $6.1m to $3m, after provisions of $9.9m for loan losses and $1.5m for taxation. International assets are booked through the bank's Grand Cayman branch or (mainly) through its New York IBF.

Mr Nafal S. Barbar, senior vice-president (international), said although trade and project-related business with the Middle East had shrunk by 25-30 per cent since the second quarter of 1984, the bank was still handling a steady flow of goods such as oilfield machinery, heavy equipment and water purification plant, supported by credits arranged through Eximbank or the Commodity Credit Corporation.

He did not foresee any balance sheet growth in the current year, but said the bank would improve on profitability through increased fee earning and a better yield on loans.

The bank reports with pride on a $75m syndicated credit which it put together last year for a Fortune 500 company, but most of the 125 U.S. companies with which it has built up a relationship are in the middle market. As Mr Barbar points out: "As a U.S. bank we have a legal lending limit. We can only commit $15m to one entity, although by using the placing capacity of the group we may be able to put up $50m."

Another facet of UBAF's role as a bridge between the U.S. and Arab markets is to serve U.S. regional banks with limited international expertise, either by providing them with the information on which to make intelligent decisions, sharing their risk on taking on the kind of exposure they do not want.

Good regional coverage is ensured by UBAF's choice of U.S. shareholders, with Bankers Trust on the East Coast, Security Pacific in the West, Texas Commerce Bancshares in Houston and First Chicago Corporation on the shores of Lake Michigan.

The release of five people at Gulf International Bank's New York branch earlier this year caused much comment, but it heralded a change of approach to the corporate market rather than any intention of abandoning it.

"We have cut our market team, because making cold calls is not very productive," said Mr Brian Clarke, the new branch manager sent out from the Bahrain head office. "We are now going through major New York and regional banks to obtain relationships with corporate customers. We will take their overline business and follow up on their introductions."

He said the bank was targeting companies at the Triple B to Double A level, especially those working in the Middle East—but if any wholesale banking-type opportunities came up at a lower level, GIB would certainly look at them.

Meanwhile, the bank had boosted its treasury activity in the direction of interest rate swaps and financial futures as a hedge to support its positions in the money market, and was placing more emphasis in correspondent banking.

Mr Clarke added that the branch had not been making a lot of money and had seemed to be moving in the wrong direction at the beginning of the year. "But that has been reversed and we now have solid base for profit."

Arab Banking Corporation's branch is also concentrating on developing new business under different management, after putting early mistakes behind it.

A loan outstanding to the bankrupt Colombian coffee magnate Alberto Duque has been fully recovered, following the successful auction in January of his 55 per cent stake in a small Miami bank which risked ending up as an unwanted item in ABC's own portfolio.

Meanwhile, non-accruing loans left over from the branch's involvement in real estate developments in Louisiana and California and commercial buildings in New York have been steadily reduced.

With a capital base of over $1bn ABC is in a position to make large commitments to quality institutions, and that will be its ultimate aim. The New York team is under no illusion that it will take patience and long-term planning.

The immediate opportunities lie in developing relationships with U.S. banks, and in participations, where ABC's commitment is disclosed and can be used to solicit further business. It is not interested in just buying loans.

So far this year, lending has increased by 30-40 per cent and has included a share in financing an oil company takeover deal—an area in which ABC feels more comfortable than in real estate.

In the trade sector, the tendency of major U.S. banks to avoid increasing their Middle East risk has worked in favour of Arab banks with big balance sheets, and ABC has taken on the exposure of a leading U.S. drug exporter.

At the same time ABC is developing its role as a clearing house in New York for the dollar settlements and collections of other Arab banks, as well as for the AFS/Visa travellers cheques launched last year by an affiliated company, Arab Financial Services. Next year, it plans to set up a small unit for trading in government securities.

Other players in the big league include BCCI, with group assets exceeding $14bn, and Arab Bank ($10bn). They differ sharply from GIB and ABC in having a strong customer deposit base drawn from a network of retail branches in the countries in which they operate. Both are interested in the retail market in New York, as well as in major money market and trade financing deals.

At BCCI, Mr S. R. Khan said his operation gained new momentum with the passage in April this year of a state banking bill permitting foreign agencies to accept deposits from non-residents, and from residents who are not U.S. citizens. This gives BCCI access to the Indian and Pakistani communities, to which it has catered so successfully in Britain.

With 70 operating staff (and 40 U.S. graduate trainees which it is putting through Pace University for deployment around the world), BCCI started big and aims to become profitable by expansion rather than by what Mr Khan disparagingly calls "squeeze."

He predicts that by the end of 1986 BCCI will be among the Top Ten in terms of assets of the 243 foreign banks based in New York, adding that few of them currently exceed $500m.

As a federal branch operational from mid-1983, Arab Bank faces no restriction on deposit-taking and is seeking retail business among "those U.S. customers who know the security that Arab Bank provides." Unfortunately, the Arab community is mainly in Brooklyn while the bank has to be located in Manhattan to pursue its larger-scale objective of marketing its lending services to multinationals.

Arab Bank reports becoming "modestly profitable" in its New York branch operation within 18 months, despite the slightly disadvantageous label (in the U.S.) of being "the PLO bank."

The Saudi giant, National Commercial Bank (NCB), is operations, Saudi Riyal trading primarily geared to clearing (although New York is not such a big SR market as London or Bahrain) and in financing some of the $6bn worth of trade which makes Saudi Arabia the sixth biggest customer for U.S. goods, and the U.S. the Kingdom's second biggest supplier (after Japan).

Executive vice-president, Lawrence G. Smith, says NCB has aimed at 125 major U.S. companies and is not interested in the rest. "We want to be the bank they think of, when they think of Saudi Arabia. NCB can issue big bonds and performance guarantees, or provide SR financing directly. Citibank has to go through Saudi-American. We try to be faster, but not too much cheaper."

The role of the Kuwaiti domestic banks is rather different, in that they add a stronger element of private and investment banking to the treasury and trade financing functions. National Bank of Kuwait (NBK) also has a portfolio management company in London and a finance company in Geneva, both doing "unexpectedly well" according to Mr George Nasra, the Kuwait-based executive manager for international credit and marketing. The move to New York was simply a matter of following the bank's customers where they wanted to go.

At the same time, the Kuwaiti lending market was becoming saturated and a bank of NBK's size ($11bn) needed to seek growth opportunities elsewhere. Since 1980 it has opened in London, Singapore and New York, and international loans now account for 40 per cent of its portfolio.

An advantage of being in New York, adds Douglas Villepique at Commercial Bank of Kuwait, is the ability to react to changing credit markets in the U.S. He says the bank is buying corporate paper which is "as good as a loan, although there is no actual relationship. The same names are in the market and in some cases the margins are better." But he no longer believes there is much to be gained from taking overline credits from domestic banks. "Many of the U.S. banks have brought their capital ratios into line and they are not selling off any assets which are attractive to us."

All the Kuwaiti banks—including the London-based United Bank of Kuwait whose dealers are watching 15 different money and commodity markets in the U.S.—seem modestly pleased by the progress of their New York branches and expect to at least break even this year.

There are a number of interesting smaller operations which keep a fairly low profile. Among them is Saudi-European Bank, which upgraded its five-year-old representative office to an agency in January this year. Most of its holding company's recent increase in capital, from $60m to $160m, is earmarked for investments in North America.

The bank obtained an operating base and premises at a good price when it bought the branch of Banque de l'union Europeene, but took over only 10 per cent of its portfolio.

Bank Audi USA—part of a private banking group represented in Beirut, Geneva, Zurich, Paris and the UAE, with aggregate assets of some $1.5bn, has been quicker than most to identify a profitable niche. Catering to companies and individuals with a Lebanese Syrian background, it has a strong marketing team, which includes the president of the bank, and prides itself on knowing its customers personally.

Trans-Arabian Investment Bank (TAIB) has found a way into the market that may set a precedent. It bought Creditcorp International as a going concern and with it, a U.S. name and established contacts.

As a trade finance house, Creditcorp has a more commercial mentality than the average bank, according to senior vice-president Louis R. Cina. "A bank doesn't work to put a deal together the way we do. We'll have the supplier absorb some of the fees, negotiate, get a little discount."

"Synergy," is a buzzword in the U.S. market just now, and it is the one Mr Cina uses to describe the way the components of the TAIB group in New York, London, Bahrain, Geneva, Istanbul, Cairo and Hong Kong feed business back and forth and provide back-up on the ground.

Most other U.S. bank acquisitions from the Arab world have been carried out by private investor groups led by Saudi or Kuwaiti enterpreneurs. At the head office of Bahrain Middle East Bank (BMB), Mr K. J. A. Katchadurian believes this is a better option for a bank than opening a branch, or setting up a new bank with partners who may not allow it to expand to the point where it creates competition with their own operations. He is still searching for a target with a good deposit base.

Cost of running a New York branch

A medium-size operation with 30 staff and 5,000 square feet of office space in the mid-town Park/Madison/Fifth Avenue area can cost up to $3m annually, depending on salary levels.

One bank puts average salaries at $30,000 and premises at $45 a square foot, with other operating expenses at $500,000. This adds up to $1.76m.

Another puts average salaries at $51,000 and all other expenses at $44,000 a head—total $2.35m. But this bank regards a 30-strong staff as inadequate.

Branches and agencies of Arab Banks in New York

Name	Present status	Date first represented	Country of registration	Ownership
BCCI (Bank of Credit and Commerce International)	A	1978	Luxembourg	Al-Nahayan family (Abu Dhabi), ADIA, Ghaith Pharaon (Saudi), other Arab investors
Arab African International Bank	B	1979	Egypt	Kuwaiti Govt. 42%, Central Bank of Egypt 42%, Rafidain Bank 10%
Gulf International Bank (GIB)	B	1980	Bahrain	Govts. of 7 Gulf states including Iraq (equally)
Saudi International Bank (Al Bank Al Saudi Al Alami)	B	1981	UK	SAMA 50%, Morgan Guaranty 20%
Saudi European Bank	A	1981	France	Saudi investors 65%, balance private U.S. fin. instit., Indian and European investors
Middle East Bank	B	1981	UAE	Mainly Futtaim family, Dubai
Arab Banking Corporation (ABC)	B	1982	Bahrain	Kuwaiti & Libyan govts. and ADIA (equally)
Arab Bank Ltd	B	1982	Jordan	Mainly Shoman family, Jordan
Gulf Bank	A	1982	Kuwait	Kuwaiti shareholders
National Commercial Bank	B	1982	Saudi Arabia	Mainly Bin Mahfouz and Kaaki families (Saudi)
Union Bank of the Middle East (formerly Dubai Bank)*	B	1982	UAE	Mainly Dubai Govt.
United Bank of Kuwait	B	1983	UK	Kuwaiti financial instit.
Doha Bank	B	1983	Qatar	Qatari shareholders
Commercial Bank of Kuwait	B	1984	Kuwait	Kuwaiti shareholders
National Bank of Kuwait	B	1984	Kuwait	Kuwaiti shareholders
REPRESENTATIVE OFFICES				
Trans-Arabian Investment Bank EC (TAIB)	R	1981	Bahrain	Saudi investors
Al-Saudi Banque	R	1983	France	Saudi investors
Alef Bank	R	1984	France	Subsidiary of Saudi European Bank
Bahrain Middle East Bank EC (BMB)	R	1985	Bahrain	Gulf investors 60%, Burgan Bank Kuwait 40%

* Change of name being finalised, following Dubai Government rescue of A. W. Galadari's Union Bank of the Middle East and merger with Galadari Bros' Dubai Bank.

U.S. incorporated institutions with majority Arab ownership

Name	Type	Take-over completed	Ownership
First American Bankshares (owns First American Bank of New York)	Multistate bank holding company	1982	Shaikh Kamel Adhem (Saudi) and other Saudi, Kuwaiti, UAE investors
Creditcorp International	Trade finance house	1984	TAIB Holdings SA (Luxembourg), affiliated with Trans-Arabian Investment Bank EC (Bahrain)

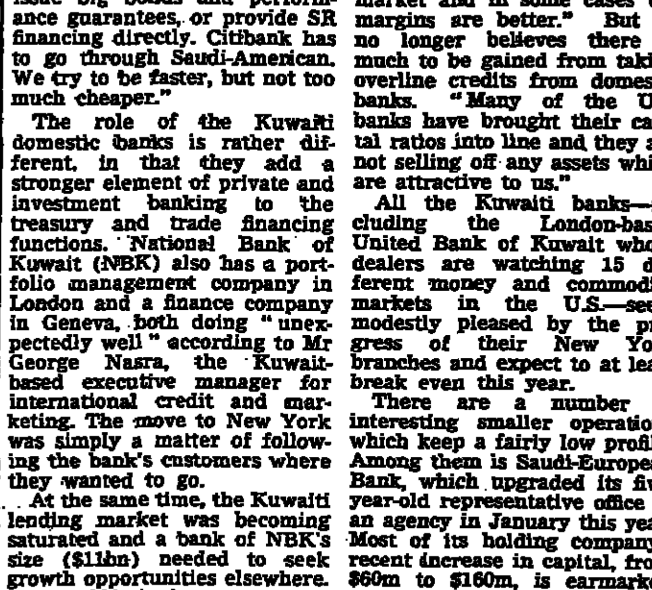
Note: Arab Banks outside New York include Abu Dhabi International Bank and Petra Bank (Jordan) in Washington, and representative offices in other states. U.S.-incorporated banks with substantial Arab ownership include National Bank of Georgia (Ghaith Pharaon, Saudi); Western Bank in Houston (Lababidi family, Syria); Great Western Bank & Trust Company in Arizona (Kuwaiti private interests); Marine Bank of Milwaukee, Wisconsin (Saudi interests 25%) and members of the First American Bankshares group in Washington, Virginia, Maryland and Tennessee.

Tables compiled by Mary Frings

U.S. incorporated affiliates of Arab Banking groups

Name	Status	Date of incorporation	Ownership
UBAF Arab American Bank	NY State charter	1976	Arab financial and govt. institutions 85%, four U.S. banks 15%
Bank Audi USA	NY State charter	1983	Affiliate of Lebanese private bank, mainly M.E. shareholders
BAII Banking Corporation	NY State† charter	1984	Subsid. of BAII American NV; mainly BAII Holdings 47%, Algerian and Kuwaiti institutional shareholders
Bank of Oman Overseas (USA) Inc.	Edge Act Corporation	1984	Subsidiary of UAE (Dubai) Bank

† Investment banking corporation under Article 12 of NY state banking laws.



Target for expansion: The Wall Street financial district in Manhattan

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Rapid growth on back of fundamentalist revival

Islamic Banking

KATHLEEN EVANS

ACCEPTING BANK interest is a crime 33 times worse than adultery, says a pamphlet issued by the Dubai Islamic Bank quoting from the hadith, the ancillary verses of the Holy Koran.

It was not until 1975 that Gulf Arabs had any way of avoiding such heinous crimes—the only alternative was to have a non-interest bearing account with an institution which dealt freely in interest. Until Islamic banks were established, such deposits were the unseen bonus of banking in the Middle East.

That changed ten years ago with the licensing of the world's first Islamic bank in Dubai. In the ensuing years, several dozen such institutions have been set up, and their combined deposits and assets make them a force to be reckoned with. It's a market that many others are now trying to cash in on.

Today, some of the major commercial institutions are attempting to formulate investment mechanisms which will prove attractive to the Islamic investor. Some are doing this by opening bank branches which operate on Islamic principles, others through subsidiaries, or alternatively through investment packages which offer "dividend" rather than interest.

The existing Islamic banks are now hastening to point out that any dealings with an institution which accepts interest on other activities is "haram" or forbidden. As one Islamic bank put it "It is hard for non-Islamic institutions to retail such services. They will have no public credibility."

Hence, the pool of religious deposits are likely to remain the monopoly of the Islamic banks for some time to come. Born on a wave of the Islamic fundamentalist revival and rejection of western values, such banks have shown staggering growth rates in the past few years.

The boom of the past decade enabled the Islamic banks to ensure their customers and shareholders dividends which far exceeded the commercial rates of interest, and considerable funds, not necessarily of a religious nature flowed into them, attracted by returns of 10 to 14 per cent on deposits. Merchants found dealings with the new institutions not only religiously comforting but highly profitable.

Today, such dividends cannot be assured. Islamic banks, by their very nature, are more closely involved in the economies in which they operate, for they have to make money on their investments, not on money. As such, many believe that the Islamic banks are far more vulnerable to the downturn in business activity that the Arab world is now experiencing.

"Normal" banking institutions can at least protect themselves from recessions by money market operations, but for the Islamic banks, this alternative is not possible.

The effects of the recession are reflected in most of the major Islamic institutions. At the world's first Islamic bank in Dubai, dividends on deposits of over one year's maturity have been trimmed from 10.4 per cent in the early years to 7.5 per cent in 1984. At the Kuwait Finance House, depositors were told early this year that the bank was unable to pay any dividend at all. This year, its senior executives are hoping that they can give at least a "modest" return to their customers.

In Egypt, the picture is the same, for at the Feisel Islamic bank, returns on one year deposits have fallen to around 8 per cent from 13 and 14 per cent in the two previous years. Shareholders' dividends, too, have dropped from 20 per cent to 16.5 per cent.

For depositors though, their return is now well below the interest rates offered by the commercial banking systems, and even more important, well below the inflation rate. In other words, banking with an Islamic bank nowadays requires a good deal of religious commitment.

Adnan al Bahar, senior executive with the Kuwait Finance House, maintains that the Islamic banks are doing no worse than their "normal" banking counterparts, and like them, reflect the depressed economic climate they are working in. "Our deposit growth is sluggish," he admits, "but we have no competition in Kuwait. Competition at this stage would not be interesting."

Nevertheless, he and many other Islamic bankers believe that their banks are probably down to their basic deposit base, the religious customer, and that the "hot" mercantile money has now left. Few are expecting to see the kind of growth rates they saw in their early years.

At the Feisel Islamic Bank in Egypt, probably one of the largest Islamic banks in the world, the picture is the same. Deposits grew by only $20m in the last Islamic year ended mid-September, compared with over $300m in the previous period.

Profits to be shared by depositors and shareholders have only nudged up to $130m compared with $123m and $97m in the two previous years. However, the bank's management point out that the number of accounts is still growing, and numbers around 1.2m against 1m the year before.

Most are small deposits, of less than $5,000. "It is not reasonable to expect the same increases that we saw before," says Ahmed Adel Kamel, deputy governor of the bank.

Given the declines seen in profitability and recession back home, the Islamic banks are now examining ways to make more money. At a recent conference in Istanbul, a number of Islamic banks gathered to discuss an expansion of services together with members of the religious *ulema*.

Under discussion is the question of bank guarantees, which have aroused considerable suspicion among religious circles because they carry a percentage charge. Moreover, the banks also discussed the possibilities of dealing forward on currencies and commodities.

A number of Islamic banks in the Gulf are also turning their attention to areas outside their home markets as a way of cushioning themselves from the recession in the region. One eighth of the balance sheet of the Kuwait Finance House is now outside the country, and management there expect this to go up.

In states with lower surpluses, the Islamic institutions feel that the home market, despite the drawbacks, should command their attention. "When the funds belong to the Egyptian people, how can I take them out of Egypt?" asked one senior executive of the Feisel Islamic Bank.

Islamic banks are only allowed to have dealings between each other, and yet the interbank market between them is still very limited. At present, the longest maturity which the Gulf Islamic banks can place funds with their counterparts in the non-surplus states is three months. Some Islamic banking officials are now examining ways of developing the interbank market to the point where one month or even one week deposits might be feasible. Islamic banks which are likely to be the recipient of such funds say that such procedures, *though highly desirable*, would be extremely difficult for it would mean drawing up a balance sheet and calculating dividend on a monthly basis. "At present, it takes us three weeks to make a balance sheet" said officials at the Feisel Islamic Bank in Cairo, which receives considerable deposits from the Islamic banks in the Gulf. However, one of the possible solutions being examined is to allow an interim dividend on a monthly deposit of, say, 1 per cent, and calculate the difference later.

All such procedures assume that the Islamic banks will continue to make money. In the Gulf, the home market is severely curtailed by the recession, and in Kuwait, marred by the local stock exchange crisis. Dubai Islamic Bank says it is not financing any new projects in the Emirates, and has ruled out any further investments in real estate and industry.

Until the upswing begins, the bank is sticking to trade finance, say officials there. However, imports are showing noticeable declines in a number of Gulf states, and thus the Islamic banks will be hitching themselves to a declining form of business activity.

In Kuwait, the local Islamic bank has been mauled by the Manakh—as has everyone else in the country. The bank has KD 438m (over $1.3bn) recorded as investments in the local property market, which *many analysts believe has* fallen by 70 per cent since the Manakh crisis began. In fact, no one knows the value of land in Kuwait at present, because the market in land sales is extremely thin.

Estimating the value of this portfolio has to be done in the light of the vast number of bankruptcies in Kuwait and the fact that the front line between Iran and Iraq is only 100 km away.

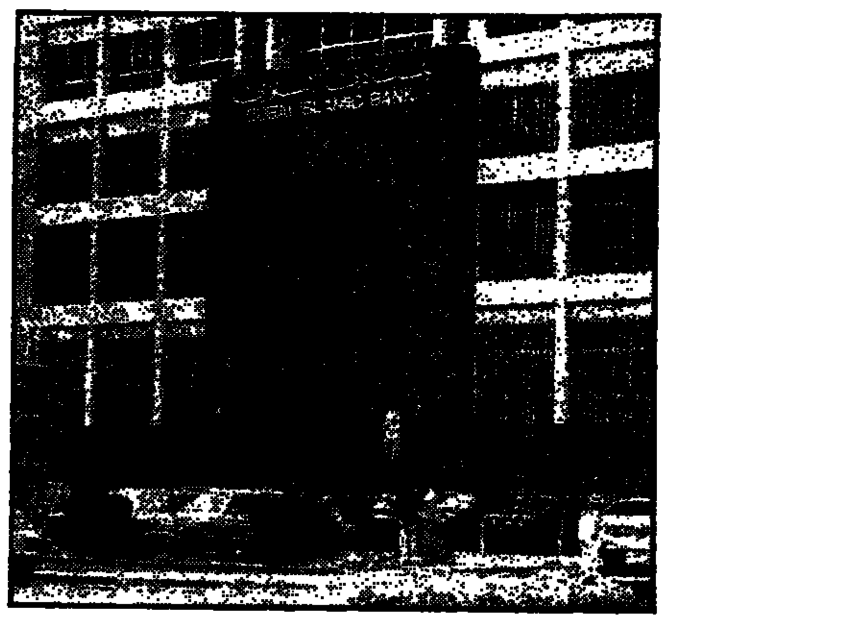
With shareholders equity totalling KD 34.7m ($104m), the property investments of the bank would seem to be a heavy burden. However, being an Islamic bank, customers deposits must also be included, and they amount to KD 730m ($2.1bn). It nevertheless came as a shock to many, that depositors could be vulnerable to bank losses. The authorities were obliged to point out to the public the financial risks of banking with Islamic banks.

In reality, this is unlikely ever to happen, for Arab governments will take any measures to prevent customers of Islamic banks ever incurring financial losses because of their religious commitment to this form of banking. The Kuwait Government, itself a shareholder in the Kuwait Finance House, did inject some KD 80m to KD 90m into the bank.

Nevertheless, many of the Islamic banks are likely to resist any further expansions in this form of banking, for the *establishment of more competitors* in a market which is showing little growth will be painful all round. Many are already concerned at the tendency of non-Islamic institutions to establish Islamic services for their customers.

In Egypt, a number of the public sector banks are opening branches offering this kind of service, while the Feisel Islamic Bank is unable to secure approval from the Central Bank for its own branch expansion.

Relations with the central banks in each country are likely to be a matter of debate in the coming years, for at present, supervision is only minimal when compared with ordinary commercial banks. Officially, the development of Islamic banking will be encouraged, but in the meantime, the monetary authorities will be examining ways in which the Islamic banks should be supervised, in the interests of the customer.



The Dubai Islamic Bank

The trials of taking a debtor to court

Legal Framework

KATHLEEN EVANS

ALL OVER the Gulf, bankers are reluctantly going to the courts to seek a solution to the problems which have resulted from their lavish funding of the boom in the late seventies.

In any region, the courts are the last resort, an admission of the consequences of unwise lending in an uncertain environment. But in the Gulf, resorting to the courts can frequently create more problems than it solves.

Foreign banks, and even local banks, are now experiencing the consequences of dealing with inward-looking tribal societies which tend to close ranks even more when under threat.

There are red faces all over the region as a result. Red from embarrassment over how lax the lending looks now with the benefit of hindsight, and red from anger at the treatment the banks are now receiving at the hands of the local legal systems.

Not surprisingly, bank executives are being fired all over the Gulf area. Other, less fortunate executives, are answering questions about their old loan portfolios from behind prison bars.

Local lawyers frequently express amazement at the kind of lending which went on. Loans went to illiterate bedu, and businessmen with no track record in management, or people whose only claim toworthiness is that they are the cousin or brother of someone else. The *experts, or Arabists, have fallen* the hardest.

Their old expertise in family trees and learned assessments of a client's social and political status has left their banks with loans that socially and politically difficult to collect on. Arab expatriate managers, too, were also particularly prone to such pressures from senior Gulf nationals, for they, more than anyone else appreciate the importance of a person's social as well as business status in an Arab society.

Today, those citizens whose social credentials once appeared so impeccable, are proving the hardest to take to court. In the words of one Gulf legal expert, "It is easier to sue someone who owes you $300, but very difficult if he is important and owes you $30m."

Influential relatives or "diwaniya" buddies have been known to pull strings shamelessly with bank directors in an effort to protect their friends from the wrath of banks.

Nowadays, the region's leading sheikhs and princes profess understanding at the banks' problems, and officially encourage them to expose their nationals to the full rigour of court judgments. But they are also politically sensitive to the fact that large numbers of their citizens are heading for bankruptcy.

In an area where expectations are still so high and nationals are brought up to expect nothing but generosity from their shaikhs, the turnabout comes as a painful surprise and subsequently assumes political dimensions. Some Gulf governments are not prepared to swallow the results of the modernist policies they supposedly espouse. In some of the G.C.C. states, bankruptcy and liquidation laws simply do not exist, and in most it would be extremely sensitive for the banks, local or foreign, to seize and take control of the assets of nationals.

Another emotive issue is that of bank interest. While all the Gulf banking systems accept the principle of interest, some are forced to gloss over it and call it commission or administrative expenses. When it comes to the law however, no such fudging is possible in countries such as Saudi Arabia, the motherland of Islam. In other countries it is limited to a certain percenage, generally at levels deemed unsatisfactory by the banks.

Sophistication

There are va rying degrees of sophistication between the Gulf states' legal systems. Kuwait's is generally thought to have the best code—the problem is that the law has been temporarily suspended for most of the bankruptcies pending. In Saudi Arabia, the bankruptcy laws exist, but they predate the establishment of the kingdom. In Abu Dhabi, there is no bankruptcy code whatsoever.

"It would make is easier to declare nationals bankrupt then, woudn't it?" remarked one cynic. Clearly the laws vary tremendously, so taking country by country, here is a brief summary of the kind of obstacles the banks might find in attempting to take their more errant customers to court.

There are two kinds of lending problems here—those loans in default by foreigners and those due from nationals. In many recent cases, tocoin a phrase, when the going gets tough, the tough get going. Many foreign managers of local companies have simply skipped the country, leaving the national holding the baby, usually large debts he was completely unaware of.

Although both are jointly responsible, in practice, it is the national who has to take the consequences. Bankers count themselves lucky if the foreign manager is still around, for in many recent cases where embezzlement is suspected, the UAE courts are hampered by the fact that the country has no extradition treaties with any countries.

In general, the legal framework in the Emirates is sadly lacking in may respects. There is no law on bankruptcy, liquidation or perfection of security. Another problem issue is that the country has no concept of freehold ownership of land, for in theory the land is the property of the sheikhs given as a grant to their subjects.

Registration of land at the local land offices does not constitute ownership or title in a number of the emirates, particularly the capital. Courts are therefore very reluctant to order the sale of land, and banks holding so-called mortgages will have tosatisfy themselves with an assignment of income from the property, at a time when rents are falling drastically.

Sharjah law is somewhat better in regard to mortgages for mortgages can only be registered after the ruler's permission is given. However, the closed nature of the property market (only UAE nationals can own land) ensures a limited number of buyers and because of the recession, only a modest return.

Another problem is that even if a mortgage is given, or an assignment on rent is agreed, such a pledge will not be recognised in the event of other creditors emerging.

One of the banks' greatest problems in the Emirates is that local law does not recognise the concept of preferred creditors. There exists no form of restrictions on their transfer. In it is possible for a client to pledge assets over and over again.

Peldges given on moveable assets can only be secured by the bank physically taking possession of the asset, which can prove unwieldly (and unprofitable in the case of jewellery or gold because of market fluctuations) and cumbersome in the case of assignment of advance income, such as a payment for a project.

Pledging local shares can also be tricky given the lack of a formal stock exchange and restrictions on their transfer. In short, many kinds of pledges and commitments given as security for loans are often difficult to formalise, and hence in reality the first to get to court will be the first to share in the client's assets.

If other claims emerge, pledges are frequently not worth the paper they are written on. More often, other creditors will have the right to share in the asset which banks had previously understood was committed to them.

The UAE does however have a law from the Federal Supreme Court which recognises bank interest. It is however limited to 9 per cent per annum on personal loans and on commercial dealings to 12 per cent per annum.

KUWAIT

The aftermath of the Souk al Manakh stock exchange crisis of 1982 has led to the abandonment of Kuwait's hitherto admirable legal code on all matters relating to indebtedness resulting from share dealings. In the opinion of local lawyers, tribalism has been allowed to triumph over modern law because the Government has all the time attempted to minimise the social and political impact of the crisis.

In the case of Manakh laws, some have proved more equal than others. Dealers and lawyers alike complain that judgments made by the government-appointed arbitration panel have been influenced by a dealer's ability to pay, the size of his debts and his social status.

Those at the top of the pile of debts have not been referred at all, while others have been obliged to pay less than they are owed from others. In short, "It's been civil war without pistols," in the words of one of the country's leading lawyers. The experience has provided a "black spot" on the country's judicial history.

Those creditors in the unfortunate position to be owed money for dealings not related to share transactions have found themselves in legal limbo as a result of the special Manakh laws. Unless, a creditor's claim was lodged before the dealers appearance in front of the government arbitration panel, and unless a full and accurate account was provided by the dealer of all of his liabilities, including trade-related debts, then creditors arriving late will secure no financial satisfaction under Kuwaiti law. The creditor could however send the dealer to jail, but this achieves little recompense for indebtedness.

In a recent case involving a debt on a real estate deal, a judge ruled that because the Manakh law had led to the seizure of the Manakh dealer's entire assets, that dealer was unable legally to pay his debt anyway.

Arbitration

In the next few months, attention of foreign banks is going to centre on those dealers who have not been referred to the arbitration panel. Their foreign debts are thought to run into hundreds of millions of dollars. Although such cases are going to prove politically sensitive, the foreign banks will be able to pursue their case in a legal environment which not only provides a full code on liquidation, but also recognises pledges and the status of preferred creditors.

Although Kuwaiti law expressly forbids ownership of land by foreigners, the foreign banks will be able to seize property for the purpose of resale. In these future cases, the problem is not so much legal as financial, for no one knows the true value of any asset in Kuwait today.

On bank interest, the laws in Kuwait are clear. For loans denominated in dinars, a simple rate of 10 per cent is allowed, while those on foreign currency transactions there is no limit.

SAUDI ARABIA

The major problem the banks face in the kingdom is that of bank interest, for the local courts will not recognise anything which remotely smells of interest. Euphemisms such as "administrative fees" or "commission" will be thrown out.

However, the defendant does have to bring it up as a defence. Many Saudi merchants, particularly the major houses now in trouble, are recognising their debts inclusive of interest. There appears to be an unwritten rule in operation in the Kingdom that if a client does accept that he owes interest, then he will receive maximum help on restructuring.

In many ways though, bankers do not have many alternatives to work-outs, no matter how unappetising they appear, for the option of going to court can be disastrous all round. Judges will not only disallow interest, but will subtract any paid in the past off the principal owed. For the Saudi national facing action for bankruptcy, a successful claim can have traumatic consequences. He goes to gaol until he can pay.

As in other G.C.C. countries, another major problem is that of security. Mortgages on land have not really been possible since 1981 when the Justice ministry instructed local notary publics not to register any property mortgages for banks. Land cannot therefore be pledged.

Other forms of security are difficult, for again physical possession is required for the security to be perfected. This has proved extremely cumbersome in the case of contractors, for seizing a company's bulldozers hardly ensures completion of a contract. Saudi law does however allow a bank to be assigned income from a contract, but this again could hinder a contractor from completing a contract.

Most lawyers in the Kingdom believe that there exists very few ways in which a bank can protect itself from default — apart from the pledging of outside assets under foreign law. Many Saudis are reluctant to pledge their overseas assets for this very reason.

Lending in such an environment is still very much a hazardous process, and dependent, in the end on a client's sense of honour. "You have simply got to trust the guy that he will pay the money back," one leading lawyer in Jeddah said.

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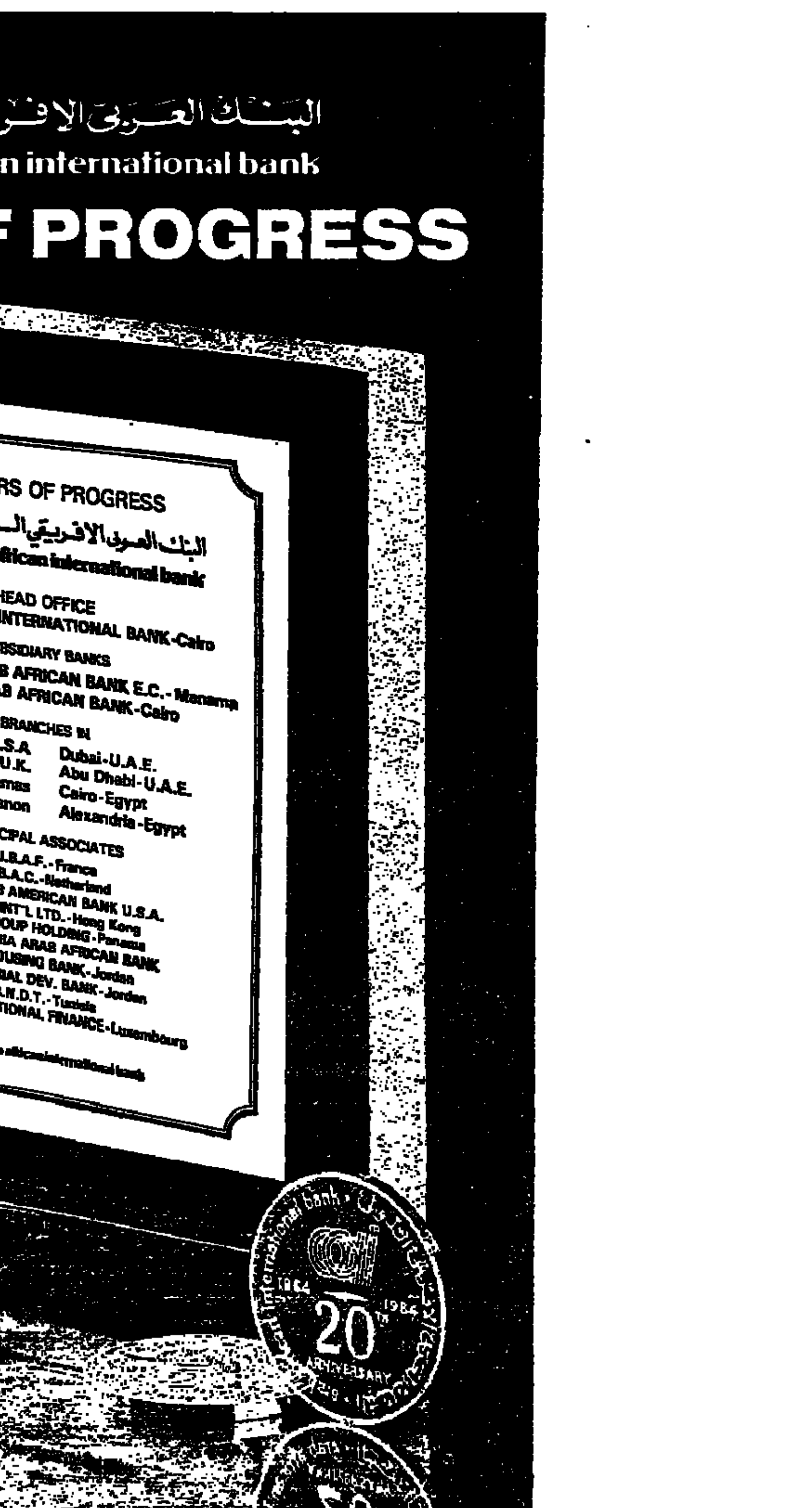


Under pressure to improve standards

Accounting

CLIVE WOLMAN

AUDITORS often like to describe themselves as physicians reporting on the health of companies and prescribing remedies in cases of illness.

Without doubt, their experience in the Arab world, particularly in the Gulf region, over the past three years has confirmed their view that their services are most in demand and their standards under most scrutiny when the business sector is in its poorest state of health.

The pressure to raise the quality of auditing, to introduce accounting standards and impose greater disclosure requirements has come from three primary sources.

One has been the stock markets. Several Kuwaiti auditing firms came under fire for their negligence in monitoring the activities of companies whose share prices became grossly inflated during the boom of the Souk al-Manakh in 1982. The Kuwaiti Stock Exchange and other supervisory bodies are now imposing much stricter controls on auditors.

Elsewhere moves to set up and promote stock markets or at least to formalise share trading, in particular in Bahrain, the United Arab Emirates, Saudi Arabia and Egypt, have led to the introduction of new company laws with more detailed accounting and auditing provisions.

The second factor has been the role of banks and financial institutions in the Gulf. The chronic over-supply of banks, particularly in the UAE, and their large loan losses as a result of the economic downturn and of their loans to Souk al-Manakh traders, have accelerated the trend away from informal lending based on personal contact and reputation and towards greater reliance on audited accounts when assessing creditworthiness.

The difficulties have also increased the demands of central banks on auditors. Auditors have been subjected to public criticism following the unexpected discoveries of skeletons in the cupboards of several banks necessitating swift rescue operations. These include the Arab Asian Bank in Bahrain the affairs of which are still being unravelled, the Arab Monetary Fund and several smaller banks in the UAE.

The third factor has been the accountants themselves. In response to outside criticism and to the rivalry between competing professional bodies, more comprehensive examinations and accounting standards are likely to be introduced to the Arab world within the next few years.

The underlying problem throughout the Arab world was perhaps most accurately pinpointed by one Stock Exchange official in Kuwait. "Companies have grown very quickly in this part of the world," he said. "But management and professional standards have not been able to grow as quickly. Kuwaiti companies and investors have not yet accepted the need for sophisticated management tools or the need for disclosure. It is really a cultural problem."

Companies have grown quickly in the Gulf, but management and professional standards have not been able to match this rapid expansion.

Among the more detailed criticisms of auditors is their lack of independence. For example, one Kuwaiti auditor of stock market quoted companies owns a felafel store and a gift shop and has a junior position in the Government.

Auditors in small firms often circulate in the bazaars touting for business among the traders. Often they offer to loan facilities for firms in financial difficulties which employ their services.

Even among larger firms such as banks, the external auditors are frequently asked to prepare the financial statements themselves instead of the internal auditor. For example, the lack of independent judgment of the internal auditors of three of the leading Kuwaiti banks, the National, the Commercial and the Gulf, is reflected in the notes to their financial statements.

Their internal auditors have adopted identical wording in most sections from the standard format prepared by their common external auditors, Ernst & Whinney, the largest international firm in the region.

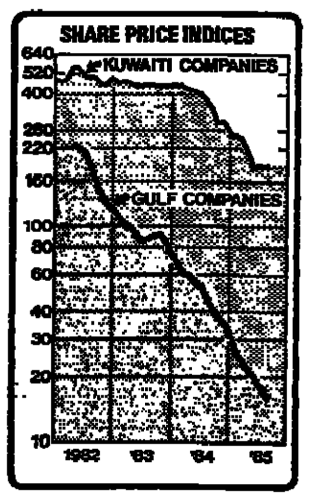
Lack of auditing skills is partly the result of a lack of training and qualifications. A few countries such as Iraq hold examinations, but most accountants are trained or examined, if at all, through U.S. or UK bodies whose syllabuses are inappropriate to the developing economies of the Arab world.

The other major criticism is the lack of common accounting standards and rules on disclosure. Even the international firms are torn between the use of UK, U.S. or international standards. But most firms often adopt different practices on a case-by-case basis.

Disclosure of related party transactions is one of the most contentious issues. Many Gulf companies have been suspected of boosting their profits by shuffling assets around at inflated prices between related enterprises.

Other issues on which there is a wide divergence of standards include the consolidation of the financial statements of subsidiaries, the pricing of inventory, foreign exchange dealing and fixed asset depreciation. Bad debt provisions has become particularly contentious in the Gulf region. The element of subjectivity is increased, particularly in the UAE, by the unpredictability of the courts, which are influenced by Quranic injunctions against usury in their awards against debtors.

But the regulatory authorities have become much tougher recently. The UAE central bank has imposed strict limits on the size of loans companies can make to their directors. In August it also asked auditors to feel free to contact its supervistors, if necessary without their clients' permission. This has intensified the complaints of over-zealousness from the accountants.



In their turn, the supervisors frequently complain about the auditors. One UAE central bank supervisor said that since they have started examining the accounts of companies behind on their debt payments to banks, they have been astonished by how often companies have manipulated their accounts with the connivance of their auditors, including sometimes the big international firms.

The accounting profession itself is badly split. Over the last two years, the initiative in establishing an organisation to set educational and technical standards has been seized by the flamboyant Palestinian accountant Talal Abu Ghazaleh whose firm has become probably the largest in the Arab world.

The Arab Society of Certified Accountants (ASCA) which he set up with a link to the UK's Association of Certified Accountants (ACCA) is to hold its first conference in Tunis next month.

Abu Ghazaleh has been an energetic and skilful publicist and saleman both of his firm and of ASCA, not least among leading Saudi, Jordanian, Kuwaiti and Tunisian politicians. But his high profile has aroused intense animosity among his competitors.

Ernst & Whinney and Saba & Co., his former employers and one of the oldest pan-Arab accountancy firms now linked with Touche Ross, have boycotted ASCA. They are working within the longer established Arab Federation of Accountants, based in Baghdad, which after years of inactivity has recently been spurred to action by the emergence of a rival.

As one UK accountant in Kuwait said: "I have been here 11 years. But nearly all the big improvements have been made in the last three."

Kuwait suffers delayed shock

Stock Exchanges

CLIVE WOLMAN

IT TOOK 20 years for the reputation of Wall Street among the American investing public to recover after the 1929 crash.

But although the Kuwaiti stock market has been showing many similar symptoms of depression and delayed shock in the aftermath of the 1982 collapse of the Souk al-Manakh, stock markets elsewhere in the Arab world have been promoted vigorously and sometimes with great success over the last three years.

For the last 20 years, the Kuwait stock market has been the largest in the Arab world. At the height of its popularity, in 1976 and 1982, it was one of the largest eight in the world, its daily turnover sometimes exceeding even that of the London Stock Exchange.

Even now, its market capitalisation at about KD 2.6bn ($8.5bn) outstrips its Arab neighbours. But the slump in the market's fortunes over the last three years has been progressively more serious.

Although the collapse in August 1982 and the cumulative default on post-dated cheques worth $94bn was the most dramatic moment in the stock market's history, the 60 per cent fall in the stock market index since the Government withdrew its support for share prices in April 1984 has been more debilitating. The decline has been similar to that on Wall Street from 1930 to 1932.

In some months, turnover has fallen to as little as KD 2m ($6.5m) compared with the KD 460m ($1.5bn) worth of shares traded in a single week at the height of the boom in April 1982. The technical factors have been reinforced by a decline in the economic fundamentals as a consequence of the Iran-Iraq war, a falling oil price and a winding-down of infrastructural projects.

But since May share prices have bottomed out. At the end of June, there was a brief upsurge in the trading and prices of the 40 Kuwaiti companies and 45 others that have survived.

More important, although most investors have been frightened away from the stock market by their experience in 1982, those who have remained, in particular professional institutional investors, have returned to, or perhaps discovered, fundamental research.

The Securities Group, the sole surviving market maker, some of the 11 approved stockbrokers, specialist research companies such as Amwal, vaious economic consultants and the Stock Exchange itself have been producing research documents on companies of high quality.

Some of the financial ratios highlighted, in particular the emphasis on the number of shares in issue, appear strange to Western analysts and the reaction of investors to "dividends" granted in the form of bonus shares (ie scrip issues) perverse.

But the Stock Exchange, after its reorganisation and move to a new building last year, has taken several steps to avoid a recurrence of the systematic deception of investors during the 1982 boom by many of the Gulf-incorporated companies that were little more than trading shells.

The listing requirements have been tightened and strict trading rules introduced which at the very least should prevent a recrudescence of post-dated cheques. Companies are being required to file half-yearly accounts and a reinforced team of auditors is likely to be granted greater disciplinary powers over companies whose accounts are not up to scratch.

Most investors have been frightened away from the stock market by their experience in 1982. Those that have remained have placed their faith in fundamental research.

One fear is, however, that the strict regulations may drive traders out of Kuwait to a less formal centre in Umm al-Qalwain in the United Arab Emirates (UAE).

A more fundamental fear is that the tendency of the Kuwait market to bid up share prices excessively amid endemic speculation will persist, as it is a reflection of the lack of alternative outlets for both the people's high savings and their yearning for excitement in what is a fairly austere Islamic society.

Compared with the turmoil in Kuwait, the Bahrain stock market has been a haven of sanity over the last four years. Although there is no central exchange and dealing is done over the telephone, brokers are registered and share prices published daily. Trading in the Bahraini companies, which number about 20, has avoided wild fluctuations, although offshore company shares have been subject to more speculation.

A draft law to introduce a formal stock market in the UAE was put to sleep in 1983 in the wake of the Souk al-Manakh collapse. It cannot in any case be effective until a new company law is implemented—and that is being delayed by objections from some of the smaller emirates to the additional powers it would grant the Federal Government.

But pressure to set up a stock exchange is being increased by the growth in informal share trading in Sharjah, Umm al-Qaiwain and in Abu Dhabi where in July the National Bank set up a department which matches bargains in the shares of 12 companies. Prices are published weekly and turnover is expected to reach about 1m shares a year.

The draft law envisages that a steering committee would set up the exchange and supervise the market with powers to intervene if, for example, turnover became frenetic.

Saudi Arabia, although it has recently passed a sophisticated company law which imposes detailed requirements on companies and their auditors, has not yet progressed beyond the stage of informal share trading and a share register set up by the commercial banks.

A more ambitious project is to establish a unified stock market for the states which are members of the Gulf Co-operation Council (GCC). This would require the removal of the ubiquitous limitations on share ownership to the nationals of individual states. But it would have much greater depth in potential investors and breadth across industrial sectors.

The driving force behind such a plan is likely to be the Kuwaiti-based Gulf Investment Corporation which was set up by the GCC partly to develop a capital market in the region.

In the oil-rich Gulf states, the main reason for setting up stock markets has been to absorb some of the surplus capital generated and to spread wealth more evenly among the population.

Elsewhere in the Arab world, government attitudes towards the usefulness of stock markets have shifted frequently. The Lebanese market has been the chief casualty of political instability, and has disappeared since 1975.

In Egypt, the oldest Arab stock market (set up in 1883) suffered badly from the nationalisation measures of the late 1950s and early 1960s. Moves to revive the market began in 1975 but it was only four years ago that a new companies law was passed and trading picked up.

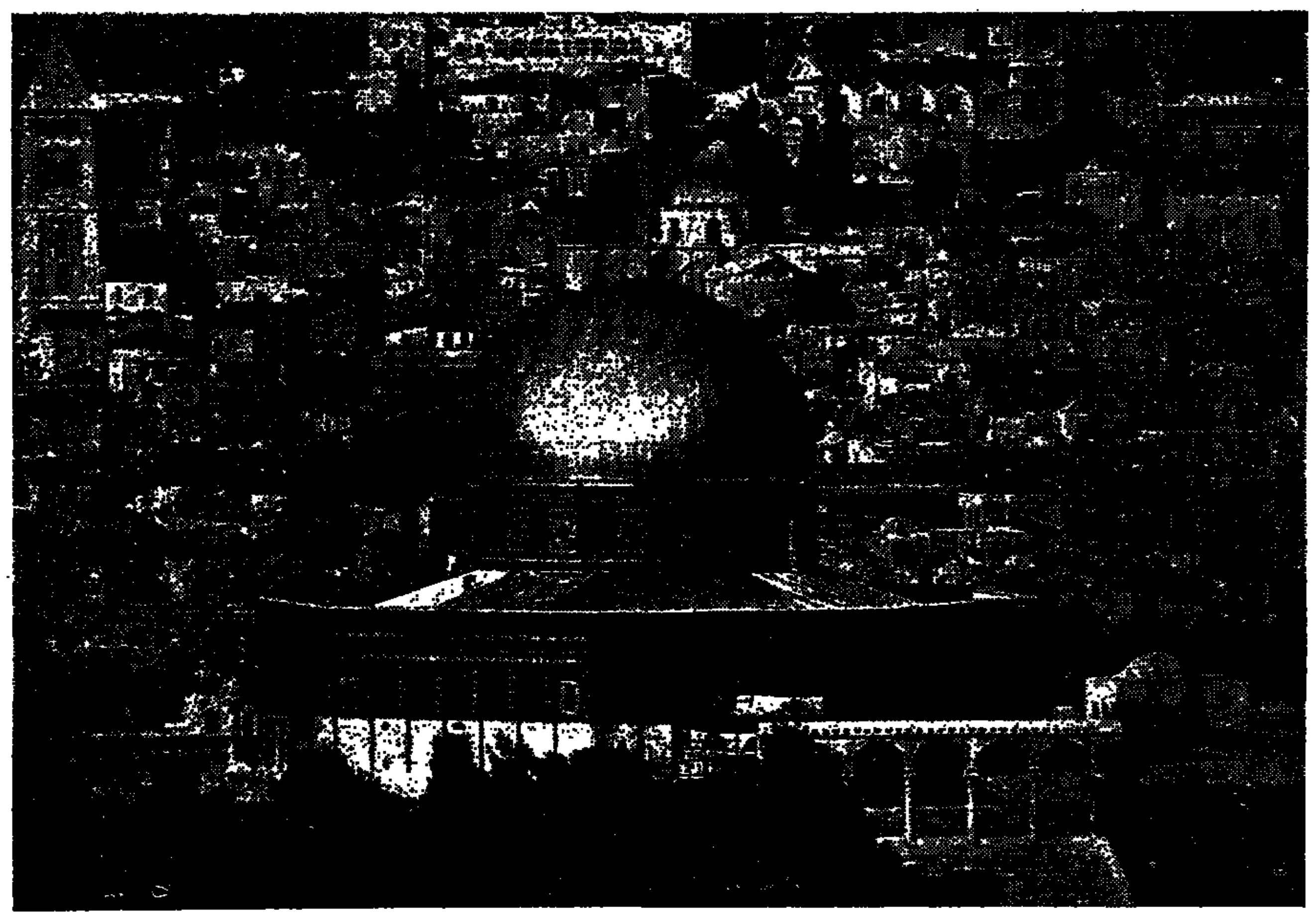
The number of quoted companies has risen from 90 at the start of 1982 (of which only 30 survived from the pre-nationalisation era) to nearly 280 now, with issued capital of about £E1.5bn ($1.1bn). The bond market is likely to be revived next year by Government issues in both Egyptian and U.S. currencies.

But turnover running at a rate of E£100m a year is still only a small proportion, after adjustment for inflation, of that in the 1950s. The renovated stock exchange building with its white fluted Ionic columns outside and giant Corinthian columns supporting a dome within is an impressive structure.

But even during the two hours of daily trading, it is the tranquility of the building after the noisy, dusty Cairo streets that is most striking. Although a new generation is being trained with U.S. aid, the brokers are mainly survivors from the pre-Nasser era and until last year relied on Government subsidies.

In Tunisia and Morocco there are small stock markets. But probably the most successful of Arab stock markets has been the one set up in Jordan in 1978. There are now 122 companies listed with a total market capitalisation of JD 1bn ($2.6bn), nearly 70 per cent of gross domestic product. Share ownership is spread widely among Jordanians and expatriate Palestinians working in the Gulf.

The market was affected by the Souk al-Manakh fever in 1982 but in contrast to Kuwait where the authorities did little except limit new share issues, the Jordanian authorities absorbed some of the speculative pressures by encouraging new equity issues. Share prices fell by about 33 per cent from their 1982 peak but have recovered slightly this year.



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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday October 14 1985

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U.S. plan to change IMF rules rejected

BY PETER MONTAGNON IN SEOUL

U.S. BANKS are having to backtrack on their plans to scrap the so-called forced lending that has been used extensively to put fresh credits in place for heavily indebted countries since the debt crisis started.

At the International Monetary Fund annual meeting in Seoul last week, banks of other nationalities insisted that the forced approach, in which all creditors are compelled to put up cash in direct proportion to their existing exposure, should stay in place.

The impetus for a change in this approach had come from a realisation by top U.S. banks that it was becoming almost impossible to keep smaller regional banks involved in lending to the debtor countries. Instead, the idea was to concentrate from now on on the core group of banks which are most heavily committed.

Much discussed in Seoul was what has become known as the 80-20 syndrome – the fact that in most cases about 20 per cent of the banks hold some 80 per cent of the debt and it is simply not worth cajoling the rest into putting up relatively small amounts of money.

Borrowers, too, are beginning to resist these efforts. Sr Mario Brodersohn, Argentina's negotiator, called them "exhausting." Sr Angel Gurria, Mexico's director general of public credit, said: "We want to stop these cosmic discussions and get down to some deals."

In practice, however, a return to voluntary lending seems likely to be confined to a limited number of specific deals with some sort of built-in incentive such as Uruguay's $45m World Bank co-financing due formally to be announced this week. This is a small deal with World Bank backing and should be easy to syndicate. Another specific deal in the offing is a $300m trade-related banker acceptance facility for Ecuador.

For large amounts the forced approach seems likely to stay much the same as it is now, especially when the credits are going to countries with a less than perfect recent record in managing their economies. Mr William Rhodes, senior vice-president of Citibank, implicitly acknowledged this point when he said in a statement last week that all creditors "large and small" should play their part.

From a practical standpoint the idea of letting smaller creditors drop out has a serious drawback. It imposes on large creditors the invidious task of drawing the line. If only the largest 100 lenders are supposed to stay on board, then the 101st will heave a sigh of relief while the 100th would be bitterly resentful.

But the dominant issue is doctrinal. Continental European banks say that the idea of letting small U.S. banks off the hook just will not do. They have always had reservations about putting up fresh money and say that a fairer and more equitable method is simply to permit a certain amount of interest payments to be capitalised.

That this would upset the U.S. regulatory authorities is an argument about which European banks do not wish to know. Feelings, particularly among West German banks, have been running high here. In the words of one German banker: "The two sides are further apart than they have ever been."

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
U.S.$	2,088.2	1.2	12,280.9	144.5
Prev	1,480.0	6.3	2,376.6	132.2
Other	604.5	—	1,260.6	76.6
Prev	1,536.0	—	634.0	383.7
Secondary Market				
U.S.$	12,065.3	1,100.6	13,648.7	1,467.8
Prev	14,879.8	1,883.3	14,052.5	2,224.5
Other	4,272.1	57.8	805.4	1,741.0
Prev	5,577.5	74.7	1,218.7	2,049.8

	Cedel	Euroclear	Total
U.S.$	11,864.7	30,970.8	42,835.5
Prev	9,944.8	28,300.4	38,245.2
Other	3,882.0	4,937.0	8,819.0
Prev	5,575.6	5,893.9	11,469.5

Week to October 10 1985 Source: AIBD

Warrant novelty wears off fast

BY MAGGIE URRY IN LONDON

EVERY so often someone in the Eurobond market comes up with an idea which tries to create extra value out of thin air. Last week Morgan Stanley launched just such a concept – a new twist to the bond-with-bond-warrants structure.

The first issue launched, for Gaz de France, sold well in the early stages, but it was soon followed by a deal for Denmark, and quickly dealers were saying, "the emperor has no clothes."

The new twist to the structure is that the 10-year host bond is callable after five years and the back bond, which the warrant holders can buy, is non-callable. Otherwise the terms for the two bonds are the same. The warrants can only be exercised by surrendering the bonds during the first five years while in the latter period the warrants can be exercised only by putting up cash. The package of bonds plus warrants is sold at a premium.

This premium gives the borrower that little bit extra which makes for a swap into floating rate funds well under London interbank offered rate (Libor). The borrower is protected against the total size of the issue rising above the $100m issue amount.

Dealers agreed that the bonds on their own did have value, at prices of, perhaps, par for Gaz de France and 98¾ for Denmark's.

But that leaves the warrants. Hardly anyone had a kind word for them. "You've heard of harmless warrants – well these are worthless warrants," said one syndicate manager. There is little point in exercising them in the first five years. Investors who hold both the bonds and warrants would convert into a non-callable bond – and they could buy just such a bond more cheaply.

Investors who hold only the warrant would have to buy the bonds to hand them in. If interest rates go down, they will have to pay up for the bonds – a point that adds a little to the bonds' attractions.

So the warrants are really an option on interest rates five years and more out. Some banks have computer models for valuing options, and the computers throw out various prices for the warrants. But away from the lead manager, valuations are mostly around the $15 mark, well below the levels implied by the packages' premium prices.

Other option experts say that option theory has not yet advanced sufficiently to give any satisfactory way of valuing such a long-dated warrant. Most option buyers are looking at much shorter time periods.

So while the Gaz de France deal sold quite well before people had really thought the idea through, the Denmark deal "kinda killed the market," in a syndicate manager's words. The pricing of Denmark, a lesser credit than Gaz, at a higher level, and indeed its appearance at all was, said another, "just plain dumb."

The action does demonstrate, though, how hard it is to sell ordinary fixed rate bonds except for top-quality names. Japan Finance Corporation is one such, and the deal went well. But the issue launched on Friday for R. J. Reynolds looks a much tougher proposition.

Union Bank of Switzerland (Securities) was the winner of a competitive bid which gave Reynolds a cost of funds of 25 basis points above the U.S. Treasury yield curve. That margin was regarded as much too tight by others, and the three banks which co-led Reynolds' last dollar deal in August declined invitations to join the group this time.

Reynolds has been an active borrower of late, following the Nabisco acquisition, with deals in Ecu and yen as well as the very successful Swiss franc issue. On the plus side the name is well-known and popular in Europe.

The Eurodollar secondary market has been very quiet as traders wait for some lead to come from New York. This week a deal for Long-Term Credit Bank of Japan with a new currency twist could emerge, along with a floater for Korea Exchange Bank likely to employ Morgan Guaranty's successful "flip-flop" idea. State Bank of India is choosing a lead manager from a range of bids for a floater. A convertible from Dai-Ichi Kangyo Bank is also expected.

The Euroyen market saw its first issue from a Japanese corporate on Friday – Mitsubishi Corporation. But dealers reckoned the terms were set too aggressively.

By the weekend the D-mark market was beginning to recover its earlier losses, with Friday seeing gains of ½ to one point. But dealers said the rebound was technical. On the week, prices were still ½ to ¾ point lower. The problem is the heavy volume of issues due in October though further ahead dealers are still looking for lower interest rates.

Five issues were launched last week, of which one was a private placement, totalling DM 1.225bn.

The Swiss franc foreign bond market is in fighting form with prices up by around ½ point last week. The response to the Swiss Confederation bond auction, which was priced at 101.10, gave encouragement to the market. Coupons on new issues have fallen, and U.S. borrowers have been active, as usual attracted by good swap opportunities. The way is open for more long-dated zero-coupon issues after the success of the World Bank's 30-year deal which traded well above its issue price.

● Mr Jacques Gelardin has been appointed chairman of Shearson Lehman Brothers International, the European investment banking and capital markets subsidiary of Shearson Lehman Brothers in New York.

County Bank wins $1bn BHP mandate

BY ALEXANDER NICOLL IN LONDON

ALTHOUGH the Euronote market is bracing itself for a busy autumn season of new mandates, few emerged last week. A ripe plum, however, is understood to have dropped into the hands of County Bank, the merchant banking arm of National Westminster Bank. Broken Hill Proprietary (BHP), the Australian resources group, is believed to have awarded a mandate for a $1bn borrowing.

Earlier this month BHP announced it was spending A$1bn on increasing its interests in iron ore and coal ventures and that the deals would be partially financed with loan facilities.

Ingersoll Rand, the U.S. mining and compressed air equipment group, has mandated Canadian Imperial Bank of Commerce (CIBC) and Salomon Brothers International to arrange a $200m paper facility with dealer distribution. It is partially backed by a $100m committed facility with a tender panel, which has a maximum spread of 15 basis points above London interbank offered rates, a standby fee of 12½ basis points, and management fees of up to 10 basis points.

A new wrinkle is the 5 basis point utilisation fee, paid to underwriting banks if more than 75 per cent of the amount sought by the borrower in any individual tender panel auction cannot be raised within the maximum spread. The fee is thus not dependent on the overall level of drawing of the facility.

Another mining group, Ashton Mining of Australia, has awarded a $50m mandate to S.G. Warburg in conjunction with Potter Partners, Australian stockbrokers, for a three-year revolving underwriting facility on which terms are due to be set this week.

A sterling acceptance facility for Enel, the Italian state electricity company, has meanwhile been increased from £200m to £250m by lead managers Warburgs and N.M. Rothschild. The deal includes an option to issue Euronotes.

Electrolux, the Swedish home appliance group, is building on an existing $150m facility with a new $150m Euro-commercial paper programme mandated to Credit Suisse First Boston and Enskilda Securities. Merrill Lynch arranged the first deal last year. The new one is entirely uncommitted, with no maximum interest rate spread, and the ability to issue seven to 355-day paper.

BHF Bank bond average

Oct 11		Previous
104.745		104.439
High	1985	Low
105.603		99.840

United may win Pan Am routes

BY WILLIAM HALL IN NEW YORK

THE U.S. Department of Transportation has given its initial approval to the $750m sale of Pan American's Pacific division to United Airlines, the biggest route transfer in the country's aviation history.

The department will issue a final decision on the deal, which was first announced on April 22, by the end of the month. President Ronald Reagan will then have 60 days in which to review the decision.

United, which is the biggest domestic U.S. airline, must also win operating rights from foreign governments, but airline analysts say that winning U.S. government support for the deal is the major obstacle. The Transportation Department's initial approval is a major step forward for United which has long held ambitions to become a major international carrier.

Several of United's competitors, such as Northwest Airlines and American Airlines, have lobbied hard to block the transfer of Pan Am's Pacific routes to United. If the deal goes through as planned, United will take over 18 aircraft and 2,700 employees from Pan Am and will service all the Far Eastern markets it serves.

Pan Am, which has been losing money for several years, needs the $750m to bolster its shaky finances.

Northwest, Pan Am's main competitor on the Far Eastern routes, said the decision "does not address the serious anti-competitive problems that the sale will create."

AMD plunges into the red

By Louise Kehoe in San Francisco

ADVANCED Micro Devices (AMD), until recently the fastest-growing U.S. semiconductor company, reported a loss of $15m for the quarter ending September 29, a dramatic downturn from the $42m profit of the same quarter last year.

An operating loss of $29m was reduced by tax credits. Sales were halved from $257m to $128m.

Astra forecasts gain

BY KEVIN DONE IN STOCKHOLM

ASTRA, the leading Swedish pharmaceuticals group, expects pre-tax profits in 1985 to jump by some 20 to 24 per cent with an increase of 12 to 13 per cent in group turnover.

Profits in the first eight months of the year before allocations and taxes rose by 31 per cent to SKr 719m ($90m) from SKr 548m in the corresponding period of 1984.

The group said the growth in earnings was due chiefly to an improvement in the profitability of major foreign subsidiaries. Production efficiency had also been improved.

Sales rose 14 per cent in the first eight months to SKr 2,878bn from SKr 2.533bn. The growth has come largely from an increase in volume, and some 83 per cent of turnover was generated from markets outside Sweden.

The main sales increase came from Astra drugs for treating respiratory diseases with a rise of 26 per cent to SKr 568m.

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October 1985

INTERNATIONAL CAPITAL MARKETS

U.S. MONEY AND CREDIT

Debt limit drama overshadows the market

THE U.S. credit markets were overshadowed last week by the drama in Washington over the raising of the U.S. government's $1,800bn overdraft limit. By mid-week the government appeared to have run out of money and there were scurrilous rumours that its cheques might bounce.

However, with the help of some nifty behind-the-scenes footwork and the use of the little known Federal Financing bank, the U.S. Treasury was able to raise $5bn of desperately needed cash without breaching the official debt ceiling while Congress continued to haggle over raising the ceiling to over $2,000bn.

Treasury warnings that the government was in danger of defaulting have been used increasingly frequently in recent days to try and force Congress to agree to raise the debt limit but to no avail. While the government itself has described the use of the Federal Financing Bank to evade the current debt ceiling as "questionable," it now has another $10bn in borrowing capacity which means that a new debt ceiling does not have to be passed until the end of the month.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	Low
Fed Funds (weekly average)	8.00	8.14	7.91	10.20	7.10
Three-month Treasury bills	7.19	6.96	7.21	9.99	6.87
Six-month Treasury bills	7.36	7.25	7.38	10.10	6.81
Three-month prime CDs	7.95	7.95	8.05	10.75	7.35
30-day Commercial Paper	7.90	7.70	7.95	10.35	6.95
90-day Commercial Paper	7.80	7.70	8.00	10.35	7.50

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100⅛	—	10.22	10.21	10.25
20-year Treasury	99⅝	+⅛	10.78	10.79	10.76
30-year Treasury	100⅝	+⅛	10.60	10.63	10.69
New 10-year "A" Financial	N/A	—	11.12	11.06	11.25
New "AA" Long utility	N/A	—	11.75	11.75	11.70
New "AA" Long industrial	N/A	—	11.63	11.63	11.55

Source: Salomon Bros (estimates).

Money Supply: In the week ended September 30 M1 rose by $5.3bn to $616bn.

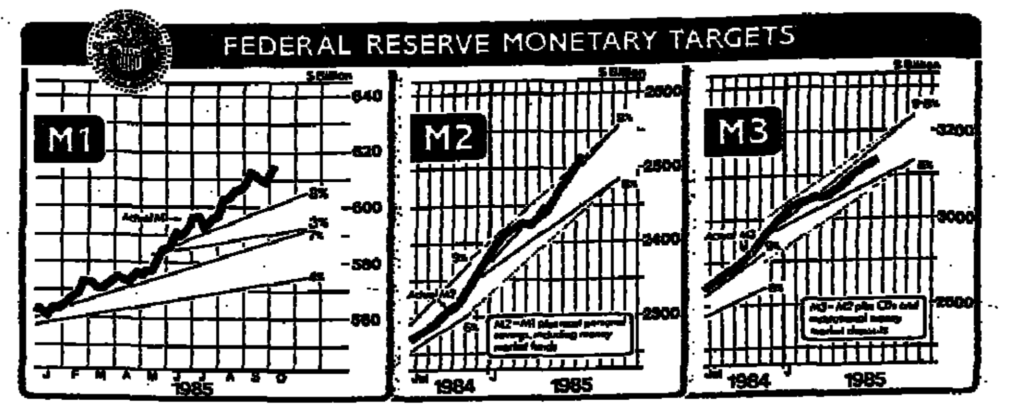
The main reason it is taking so long to get formal approval of a new debt ceiling is because the issue has been seized upon by a strange coalition of conservative and liberal congressmen who have joined together to press for the promise of a balanced budget in return for their support for an increase in the official debt limit.

In just five years the U.S. national debt has doubled to $2,000bn and the annual budget deficit has trebled to over $200bn. The latest move to deal with the huge budget deficit surfaced last week as an amendment to the Debt Ceiling Bill sponsored by Senator Phil Gramm, a Texas Republican. Under his plan, which was passed in the Senate with a 75 to 24 vote, a declining annual deficit ceiling would be established which would reach zero by 1991 when the budget would be in balance.

At the end of last week the House of Representatives voted by a very large majority to endorse the goals, but not the specific provisions of the Gramm balanced budget amendment. The Debt Ceiling Bill with its budget-balancing amendment will now be discussed by a joint Senate and House of Representatives conference.

Until these delays have been resolved the U.S. credit markets are in a state of flux. The market's underlying technical condition is strong owing to the temporary delay in the Treasury's regular financing schedule, says *Aubrey G. Lanston* in its latest weekly market letter. However, the market remains skittish over the upcoming flood of new issues once the debt ceiling is increased. Analysts estimate that the *Government will want to raise close to $50bn in the space of a few weeks just as soon as the debt limit is raised.*

Short-term rates drifted higher last week but longer-term bonds were little changed with the price of the key long bond, the Treasury 10⅜ per cent, due 2015, oscillating around par and yielding 10.6 per cent. As a result the Treasury yield curve narrowed by 25 basis points. This is the first narrowing in several weeks but the gap between the short and long end of the market remains 325 basis points.



This week's batch of economic data should give fresh clues to the underlying strength of the U.S. economy. Last week's figures on September retail sales showing a 2.7 per cent increase indicate that consumer spending is strong and figures on industrial production (due Wednesday), and housing starts and Gross National Product (both to be released on Thursday), should confirm that overall growth remains "moderate at best," says Salomon Brothers' Dr Henry Kaufman.

The U.S. Commerce Department has brought forward its release date on preliminary third-quarter GNP figures in an effort to prevent it being leaked to the credit markets ahead of time. Analysts expect the 2.8 per cent "flash" GNP estimate to be revised upwards to between 3 per cent and 3½ per cent.

The other recent news item which is being currently digested by the credit markets is the nominations to fill the two vacancies on the Federal Reserve Board. Mr Manuel Johnson, aged 36, is currently Assistant Treasury Secretary, and Mr Wayne Angell, aged 55, has been variously described as a Kansas farmer, banker and economics professor.

Dr Kaufman describes the two as "pro-growth" and says that their nomination suggests no near-term change in an already generous monetary policy." However, he notes that if they are appointed "they may test chairman Volcker's ability to rally a consensus to his viewpoint when and if conditions lead him to turn away from the current posture."

William Hall

UK GILTS

Evidence of underfunding adds to confusion

IF THE gilt-edged market hardly blinked at last Tuesday's figures showing another surge in sterling M3—prices fell by an ⅛ point—the evidence of underfunding which accompanied them accentuated the confusion surrounding official policy.

The fact that investors were prepared to shrug off a 1⅛ per cent rise in sterling M3 during banking September underlines the authorities' success in downgrading the aggregate.

Since Mr Nigel Lawson, the Chancellor, set his 5 to 9 per cent target range in the Budget M-3 has been growing by an annual 15¾ per cent. Yields for long-dated gilts over the same period have fallen from 10.8 per cent to below 10.2 per cent.

What was of more concern to analysts in the market last week was, firstly, the extent to which the slow pace of funding over the past few months has been deliberate policy; and secondly, how far Friday's announcement of a new £800m tap stock reflected a modification of that stance.

After negligible net sales in the three months to mid-August, the news that net government funding, including National Savings, totalled only £300m in the latest month led many analysts to detect a distinct shift in the Bank's strategy.

What has so far been officially admitted is that policy changed in midsummer when the authorities concluded that sterling M-3 was giving a misleading signal.

The decision, we were told, was that the level of sales would be dictated by the need to fund the public sector borrowing requirement not, as previously, by the behaviour of sterling M-3. The difficulties posed by the Bank of England's bill mountain also argued against aggressive funding.

But what in fact has happened is that the public sector has added around £2.7bn in net terms to monetary growth over the past two months.

The authorities have rehearsed several arguments to suggest that this underfunding reflected a series of technical, almost accidental, factors.

The official line is that gross sales have been relatively buoyant—close to £5bn over the four months to mid-September—but that large redemptions and the strong pace of foreign buying have depressed net sales to British institutions.

That explanation was at first fairly readily accepted by the market, but the latest figures have undermined its credibility with many brokers.

There is at least a suspicion that the underfunding represents what broker Capel-Cure Myers terms "backdoor reflation."

The suggestion is that the Treasury felt unable to loosen monetary policy through a cut in short-term interest rates because of the possible impact on the pound, but felt confident enough to relax it indirectly.

It is not a view that the authorities would accept, although some officials concede that policy has been to err on the side of underfunding.

But whatever the past strategy—and the market is waiting for Mr Lawson's Mansion House speech on Thursday for clarification—there are signs of yet another subtle shift in official thinking.

The Bank's announcement of the £800m tap stock was interpreted by analysts like Mr Stephen Lewis of broker Phillips & Drew as a return to a more aggressive funding strategy.

The £40 partly paid issue of 10 per cent Treasury 2001 will be offered on Thursday at a minimum tender price of £98.25 per £100 of stock. At that price it yields 10.23 per cent.

The decision to go for a traditional tap issue rather than a series of small tranches of existing stock was taken by many as a sign that the Bank is no longer oblivious to sterling M-3, particularly as the exchange rate has edged down from its high.

And in the market there is still what Mr Ian Harwood of broker Rowe & Pitman describes as a "residual feeling that sterling M-3 may be saying something about future inflation."

The Bank must be aware that an unexpected bout of weakness for the pound could easily lead the market to reassess its present indifference to broad money.

Philip Stephens

All of these Notes having been sold, this announcement appears as a matter of record only.

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Shearson Lehman Brothers International — Standard Chartered Merchant Bank Limited
Sumitomo Finance International — Swiss Bank Corporation International Limited
Toyo Trust International — Union Bank of Switzerland (Securities) Limited
S.G. Warburg & Co. Ltd. — Yamaichi International (Europe) Limited

14th October, 1985

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¾ 94	100	104⅛	−0⅛	10.94
AIDC 11 89	75	102⅝	−0⅛	9.99
AIDC 11⅞ 90	100	101⅛	0	11.41
Amer Savings 12 89	125	108	0	10.86
Amer Savings 12⅝ 89	100	103⅛	−0⅛	11.05
Asian Dev Bk 11⅜ 98	100	105	+0⅛	10.78
Australia 11¼ 90	100	105⅛	+0⅛	9.87
Australia 11½ 95	300	105½	0	10.58
Australia 11⅜ 98	100	107	+0⅛	10.61
Austria 15½ 88	75	111⅛	+0⅛	10.02
Avco Fin 13⅛ 91	100	107½	0	11.46
Bk Nova Scotia 13⅛ 87	100	106	0	9.88
Bank of Tokyo 12⅛ 92	100	104⅞	−0⅛	11.22
Bank of Tokyo 13⅜ 91	100	112	+0⅛	10.68
Bank of Tokyo 13⅞ 89	100	111⅛	+0⅛	10.22
Bergen Bank 11½ 90	75	101½	0	11.02
BP Capital 11¼ 92	150	102⅛	−0⅛	10.56
Br Col Hydro 11⅛ 93	200	0		
Br Col Hydro 12½ 14	200	0		
Br Col Hydro 12½ 13	250	0		
Britoil Fin 11⅞ 90	125	103⅞	−0⅛	10.83
Caisse Nat En 11¼ 95	125	105⅛	0	10.78
Canada 10⅞ 88	500	103½	−0⅛	9.49
Casio Computer 5⅞ 89	80	135	+11	−3.55
CBS Inc 11⅛ 92	100	102⅛	−0⅛	10.89
Centrust S & L 0 10	1bn	6⅛	−0⅛	12.06
Chesebrough 12 93	100	102⅛	−0⅛	11.45
Chrysler Fin 13⅛ 89	150	106⅝	0	12.00
Citicorp O/S 10⅛ 90	100	100	−0⅛	10.34
Citicorp O/S 11⅛ 90	100	103½	0	10.80
Citicorp 11⅛ 92	100	103	−0⅛	11.03
Citicorp 11⅛ 97	200	101⅛	0	11.44
Citicorp O/S 14 94	100	103½	0	13.27
CNCA 11½ 92	125	103⅞	+0⅛	10.61
CNCA 13⅛ 91	100	110½	−0⅛	10.64
Coastled Int 12⅝ 88	125	103⅝	0	10.62
Coca-Cola 11⅛ 88	100	104⅞	0	9.48
Comp Bancaire 13⅞ 90	75	109⅝	+0½	11.04
Comsat Int 12⅝ 91	100	104⅞	0	11.08
Creditanstalt 13½ 91	100	108⅞	0	10.88
Daiichi Kangyo 12⅛ 90	100	106⅝	0	10.55
Denmark 10⅞ 90	100	98⅝	−1½	11.20
Denmark 11½ 92	100	102⅛	−0⅛	10.85
Denmark 12⅛ 92	250	101⅛	+0⅛	12.41
Denmark 13 92	100	102½	+0⅛	12.37
Denmark 13⅛ 91	100	110⅝	−0⅛	10.85
Denmark 13⅞ 88	100	108½	−0⅛	10.24
Denmark 14 91	100	109⅛	0	11.87
Digital Equip 11⅛ 89	150	104⅛	0	10.21
Dutch St Mines 11⅛ 91	150	102⅞	+0⅛	10.52
Eksportfinans 11⅛ 92	100	102½	−0½	10.66
Eksportfinans 11½ 90	100	103⅝	−0⅛	10.50
Elec de France 11⅛ 93	100	102⅛	−0⅛	10.62
Elec de France 12⅝ 87	150	105⅛	−0⅛	9.51
EEC 11 87	350	102⅛	−0⅛	9.41
EEC 11½ 90	100	103⅛	−0⅛	10.16
EEC 12 93	100	106⅞	−0⅛	10.67
Elf-Aquitaine 10⅞ 89	100	100⅛	−0⅛	10.48
Ericsson L M 10⅛ 88	100	100	−0½	10.32
Euro Inv Bk 11½ 90	200	104½	−0⅛	10.31
Euro Inv Bk 11⅝ 91	73	103½	+1	10.69
Euro Inv Bk 12½ 90	100	108	−0⅛	10.17
EDC 9⅞ 88	200	100⅛	−0⅛	9.76
EDC 10 88	125	100⅞	−0⅛	9.53
EDC 10⅛ 88	100	102⅛	−0⅛	9.55
EDC 11⅛ 89	150	103⅛	+0⅛	9.85
EDC 12 89	100	106⅛	−0⅛	10.08
EDC 13⅛ 87	100	106⅛	−0⅛	9.40
Fed Dept Store 11 90	100	102⅛	−0⅛	10.18
Finland 11½ 88	100	103⅛	0	9.60
Finland 12⅛ 94	75	107⅛	−0⅛	10.84
Finnish Export 12⅛ 87	75	105⅛	−0⅛	9.59
Firstfed Mich 1 13⅛ 89	125	106⅛	−0⅛	11.07
Florida Fed 12⅛ 89	100	103⅛	0	11.17
FNMA 11½ 91	300	102⅛	+0½	10.85
Gen Elec Cred 0 96	600	33	+0⅛	10.87
Gen Elec Cred 9⅛ 91	100	99⅛	−0⅛	9.88
Gen Elec Cred 10⅛ 90	200	101⅛	−0⅛	10.21
Gen Elec Cred 11 91	200	103⅛	0	10.03
Gen Elec Cred 11½ 87	200	103⅛	0	10.96
Gen Elec Cred 12 94	200	105	0	11.09
Gen Foods Cap 11½ 90	75	103⅛	+0⅛	10.52
General Mills 12 91	100	104	−0⅛	11.05
GMAC 10 88	200	101⅛	+0⅛	9.40
Gen Motors Acc 10½ 90	200	101⅛	+0⅛	10.08
Gen Motors Acc 11⅛ 90	100	103⅛	−0⅛	10.37
Gen Motors Acc 13 86	200	103⅛	−0⅛	8.20
GTE Finance 12 96	75	101⅛	−0⅛	11.74
Gulf Oil 10⅛ 94	100	99⅛	+0⅛	10.33
GZB 14 91	100	111⅛	−0⅛	11.19
Holl Air Fin 12⅛ 91	100	103⅞	0	11.24
Household Fin 11⅛ 92	100	102⅛	+0⅛	11.08
IBM 9⅛ 88	200	100⅛	0	9.58
IBM (WTC) 10⅛ 89	300	101½	−0½	10.16
IBM Credit 11 89	100	105⅝	+0⅛	9.87
IBM Credit 13⅞ 87	100	101⅞	0	13.49
IBM 12⅛ 92	200	107⅛	+0⅛	10.59
Ind Bk Japan 10⅛ 92	100	101⅛	+0⅛	10.36
Ind Bk Japan 10½ 95	100	101⅛	+0⅛	10.62
Ind Bk Japan 11½ 89	125	103⅞	−0⅛	10.05
Ind Bk Japan 11⅞ 91	100	106½	−0⅛	10.37
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Signal Compe [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Standard Oil [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Statoil 12 88	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Corp [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Fin [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Fin [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Trust [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden 11½ 89	[illegible]	[illegible]	[illegible]	[illegible]
Sweden 12⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Swedish Export [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swedish Export [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swedish Export [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiyo Kobe [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiyo Kobe 12 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tenneco Corp [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Texaco Capital [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Texaco Capital [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Texaco Capital [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Texas Instru [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokai Asia [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo Electric [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo Elec Pr [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Toray Inds [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Toronto-Dom [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UBS [illegible] 91	[illegible]	[illegible]	[illegible]	[illegible]
Utd Tech [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Veba 8 93	[illegible]	[illegible]	[illegible]	[illegible]
West LB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Westpac [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Weyerhaeuser [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 11 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 11 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 11 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 12 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 12 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 12 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yasuda Trust [illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
African Dev Bk [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Arab Bank Corp [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banca Lavoro [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banco di Roma [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bnco di Roma [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bankers Tr NY [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank of Greece [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Montreal [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bqe Nat Paris [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bqe Nat Paris [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bqe Nat Paris [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barclays O/S [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BBL ⅛ 95	[illegible]	[illegible]	[illegible]	[illegible]
BBL ⅛ 99	[illegible]	[illegible]	[illegible]	[illegible]
BCI ⅛ 96	[illegible]	[illegible]	[illegible]	[illegible]
BFCE ⅛ 88	[illegible]	[illegible]	[illegible]	[illegible]
BFCE ⅛ 99	[illegible]	[illegible]	[illegible]	[illegible]
Belgium [illegible] 04	[illegible]	[illegible]	[illegible]	[illegible]
CCCE ⅛ 05	[illegible]	[illegible]	[illegible]	[illegible]
CEPME ⅛ 96 £	[illegible]	[illegible]	[illegible]	[illegible]
Chase Manhattan [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chemical NY [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Citicorp O/S ⅛ 91 £	100	99⅞	−0⅛	11⅞
Citicorp Pan Pan ⅛ 97	250	100⅛	0	8⅞
Caisse Nat Tel ⅛ 90	275	100⅛	+0⅛	9⅞
Commerzbank ⅛ 89	150	100⅛	+0⅛	8⅞
Creditanstalt ⅛ 96	150	100⅛	0	8¼
Credit Comm ⅛ 95	100	100⅛	−0⅛	8⅞
Credit Foncier ⅛ 00 £	100	100⅛	0	12⅞
Credit Lyonnais ⅛ 96	300	100⅛	−0⅛	8 7/16
Credit Lyonnais ⅛ 99	250	100⅛	0	8⅞
Credit National ⅛ 95 £	100	100⅛	−0⅛	11 13/16
Dai-Ichi Kangyo ⅛ 96	150	100⅛	0	8 13/16
Denmark ⅛ 90	250	100⅛	0	8 5/16
Denmark 0 99	200	99⅝	−0⅛	8½
Denmark 1/16 90	500	100½	0	9⅛
Eldorado Nuke 0 89	100	100⅛	0	8¼
Elec de France ⅛ 99	400	101	0	8 7/16
ENEL ⅛ 93 £	100	100½	−0⅛	11½
Exterior Int ⅛ 96	125	99⅝	0	7⅞
Ferro del Stat ⅛ 88	100	100⅛	−0⅛	8½
Ferro del Stat ⅛ 99	250	100⅛	0	8 7/16
Fiat Finance ¼ 94	100	100⅛	0	8⅝
First Chicago ⅛ 94	100	99⅞	+0⅛	8 5/16
First Chicago 3/16 97	150	99⅝	+0⅛	8 7/16
Ford Motor Cr ⅛ 91	200	100⅛	0	9 13/16
GW O/S Fin ⅛ 94	100	99½	0	8⅝
Grindlays ⅛ 94	100	100⅛	0	8⅝
INI 3/16 00	150	100⅛	0	8 5/16
Interfirst Tex ⅛ 89	100	97⅛	0	8⅝
Ireland ⅛ 93 £	50	100½	−0⅛	12 13/16
Ireland 3/16 94	300	100⅛	0	8⅝
Ireland ⅛ 96 £	100	100⅛	−0⅛	12⅞
Ireland ⅛ 97	300	100⅛	0	8 7/16
Ireland 3/16 99	300	100⅛	0	8 15/16
Italy ⅛ 94	1bn	100	−0⅛	8⅞
Italy ⅛ 99	500	100⅛	0	8⅝
Kleinwort Benson ⅛ 96	100	100⅛	+0⅛	8½
Korea Exch Bk ⅛ 94 £	100	98⅝	0	12
Lincoln S & L ⅛ 99	100	99⅝	0	8⅝
Malaysia ⅛ 93	850	100	−0⅛	8½
Malaysia ⅛ 94	600	99⅞	0	7 13/16
Man Hanover ⅛ 94 £	75	98⅝	0	11⅝
Marine Midland ⅛ 94	125	100	−0⅛	8 7/16
Marine Midland ⅛ 96	125	100	0	8 7/16
Marine Midland 3/16 09	150	100	0	8
Mellon Bank ⅛ 96	250	100⅛	0	8⅝
Midland Intl ⅛ 99	200	100⅛	0	8 7/16
Mitsui Fin ⅛ 96	100	100⅛	0	8 5/16
Morgan Grenfell ⅛ 94	50	99⅝	+0⅛	8 5/16
Mtg Intermed ⅛ 10 £	50	100	0	12
Nat Bank Canada ⅛ 91	50	100⅛	+0⅛	8⅝
Natl Bank Detr ⅛ 96	100	99⅞	−0⅛	8⅝
Nat West Fin ⅛†	500	100½	0	9½
Neste Oy ⅛ 94	100	100⅛	0	8 5/16
New Zealand ⅛ 87	350	100⅛	0	8½
NZ Steel Corp ⅛ 92	300	100⅛	0	9½
Oster Ln Bank ⅛ 99	100	100	−0⅛	9⅝
Oko Bank ⅛ 92	50	99⅛	−0⅛	8 13/16
Portugal ⅛ 92	100	100	0	8⅝
Queensland Coal ⅛ 96	365	100⅛	0	9
Renfe ⅛ 91	100	100⅛	+0⅛	8 5/16
Sanwa Intl Fin ⅛ 92	150	100	0	8 5/16
SEAT ⅛ 93	100	100	0	8 5/16
Security Pac 3/16 97	250	99⅞	+0⅛	8 5/16
Skopbank ⅛ 94	75	99⅛	0	8⅝
SNCF ⅛ 93 £	75	100⅛	−0⅛	12 5/16
Soc Generale ⅛ 90	250	100⅝	+0⅛	8½
Soc Generale ⅛ 94	250	100½	0	8 11/16
Spain ⅛ 88	200	100⅛	0	8 1/16
Spain ⅛ 97	250	100⅛	0	8⅝
Standard Chart ⅛ 94	200	100⅛	−0⅛	8⅝
Sumitomo Trust ⅛ 94	100	100⅛	0	8 7/16
Sweden ⅛ 99	500	99½	−0⅛	9½
Sweden ⅛ 03	1bn	100⅛	0	8⅝
Sweden 0 90	700	99½	0	7 13/16
Sweden ⅛ 24	500	100	+0⅛	8 7/16
Sweden ⅛†	750	100	0	8 5/16
Tokai Asia ⅛ 89	150	100⅛	0	8⅝
Toyo Trust Asia ⅛ 98	100	100⅛	0	9
TVO Power ⅛ 04	100	98½	0	8⅝
Union Bank-Norw ⅛ 99	50	98⅞	0	8 7/16
Utd Kingdom 0 92	2.5bn	99⅞	+0⅛	8 5/16
Wells Fargo 3/16 96	50	99⅝	+0⅛	8 1/16
World Bank 1/32 94	250	99⅞	0	7 13/16
Yorkshire Int ⅛ 94 £	75	100⅛	−0⅛	11⅝

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	125⅝	+1	
Best Denki 5⅞ 97	15	185	0	−1.75
Canon 7 97	50	213⅝	+12⅛	−4.24
Daiwa Secs 5½ 98	60	228⅛	−4⅛	−0.58
Dev Bank Sing 5½ 98	70	73	+2	10.31
Elders 11⅛ 94	160	110⅛	+2⅛	12.69
Elektrowatt 5 98	52	118	+6⅛	3.31
Fujitsu 3 99	180	99⅞	+7	4.42
Intec Inc 3 99	60	75	+10	15.42
Kumagi Gumi 3½ 00	80	179⅛	−8⅛	−0.76
LASMO 9⅛ 98	44	97⅛	+0⅛	16.87
Moet-Hennessey 7 99	50	110⅛	+2⅛	0.29
Murata Mfg 3½ 00	100	101⅛	+2⅛	5.82
Nippon Oil 3⅛ 99	50	94⅛	−0⅛	9.86
Ono Pharm 3⅛ 98	60	88⅛	−0½	−0.43
Soc Gen Surv 4½ 94	51	130	+2⅛	115.96
Sumitomo Corp 2⅞ 99	70	146⅞	−3⅛	1.56
Texaco Capital 11⅞ 94	1bn	104⅛	−0⅛	43.47
Texaco Capital 11⅛ 94	500	105	+0⅛	
Tsugami Corp 3⅛ 00	20	78	−2	−0.59
Yamaichi Sec 3⅛ 95	20	163	−6	−1.86

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 7⅛ 94	15	102⅛	−0½	6.82
Avon Products 6⅛ 91	25	99⅛	−0½	6.90
Denmark 6⅛ 92	20	100	−0⅛	6.74
Dow Chemical 7 94	50	101⅛	−0⅛	6.83
EDF 6⅞ 95	20	101⅛	−0½	6.83
Eurofima 7⅛ 94	10	102⅛	−0⅛	6.92
Eurofima 6⅛ 92	10	100½	−0⅛	6.70
FNMA 6⅞ 92	50	100⅛	−0½	6.72
GMAC 6½ 90	25	100	−0⅛	6.49
Intel 6⅛ 92	13	96⅞	−1⅛	7.25
IADB 7½ 94	15	102⅛	−0⅛	7.09
IADB 7⅞ 93	15	103	−0⅛	7.37
ITT 6⅛ 92	20	99⅛	−0⅛	6.89
McDonald Corp 6½ 92	25	99½	−0⅛	6.59
New Zealand 7⅛ 90	15	102⅛	−0⅛	6.62
New Zealand 7⅛ 89	15	103	−0⅛	6.72
Pacific Gas & El 7 94	20	101⅛	−0⅛	6.75
Penney J C 6⅛ 92	26	99⅛	−0⅛	6.82
Proctor 6⅞ 92	25	101⅛	−0⅛	6.37
Sallie Mae 6⅛ 92	25	99⅛	−0½	6.67
TRW 7 94	15	101⅛	−0½	6.76
Utd Technology 6⅛ 92	25	100	−0⅛	6.62
World Bank 7 94	20	102½	−0⅛	6.60
World Bank 7⅛ 93	20	105⅛	−0⅛	6.68
World Bank 8 93	20	107	−0⅛	6.76

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
ASEA 9⅛ 89	600	101⅛	0	9.32
Eurofima 10 94	600	104⅛	+0⅛	9.30
E Coal & Steel 10½ 94	1bn	104⅛	+0⅛	9.57
Euro Invest Bk 10⅛ 94	1bn	106	0	9.42
World Bank 10⅛ 89	1bn	104	+0⅛	8.90

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 8 89	200	105⅞	−0⅛	5.85
ABN 7⅛ 89	150	105⅛	+0½	6.14
Amro Bk 7⅛ 89	150	103⅛	0	6.19
Amro Bk 8 89	200	105	+0⅛	6.31
Bk Mees & Hope 8⅛ 89	100	106	+0⅛	6.21
Beatrice Foods 8⅛ 89	100	107½	+0⅛	5.86
C C Rabo 8 89	150	105⅛	−0⅛	6.22
Denmark 8½ 91	100	108⅛	+0⅛	6.84
Int Stand Elec 8½ 89	100	105⅛	0	6.55
New Zealand 8⅛ 89	100	108⅛	+0⅛	6.28

CANADIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Amex 12⅞ 91	50	105½	−0½	10.96
Aust Resources 11⅛ 92	50	101½	−0½	11.25
Bank of Tokyo 10⅞ 92	75	104⅛	−1½	9.94
Bqe l'Indosuez 14 91	75	109	0	11.74
Br Col Munic 12⅛ 91	100	105⅞	−0⅛	10.87
Br Col Munic 13½ 91	100	108⅛	−0⅛	11.31
Br Col Tele 12⅛ 89	70	102⅛	0	11.50
Denmark 11⅛ 91	100	101⅛	−0½	11.30
Farm Cred Corp 12⅛ 90	75	104½	+0⅛	11.02
Kredietbank 12 92	75	101⅛	+0⅛	11.59
Long Term Cred 11⅛ 90	75	101⅛	−0⅛	11.33
Montreal City 12⅛ 91	50	104⅛	+0½	11.02
New Brunswick 12 95	75	103⅛	+0½	11.37
Nova Scotia 11⅛ 95	100	100⅛	−0⅛	11.58
Quebec Hydro 14 91	75	107⅛	−0½	12.01

ECU STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 9½ 92	100	103½	−0⅛	8.74
Australia & NZ 10⅛ 91	50	105½	+0½	9.39
Austria 10⅛ 93	100	107⅛	−0⅛	8.73
BFCE 9⅛ 92	75	103½	−0⅛	8.98
Cred National 10⅛ 91	50	107⅛	−0⅛	9.16
Cred National 11⅛ 91	60	108⅛	+0⅛	9.34
Denmark 10⅛ 91	75	107⅛	0	8.94
Ebco Intl 10⅞ 89	55	104⅛	0	9.34
EEC 10½ 91	60	104⅛	+0⅛	9.41
EEC 11 93	50	108⅛	−0⅛	8.78
EEC 11⅛ 91	50	109½	+0⅛	9.88
EEC 11⅛ 93	70	108⅛	+0⅛	8.89
Euro Coal & Steel 6 94	60	121⅛	−1	8.68
Euro Invest Bk 9⅛ 95	200	101⅞	−0⅛	8.93
Euro Invest Bk 10⅛ 94	100	105⅛	−0½	9.09
Euro Invest Bk 10⅛ 89	50	106	−0⅛	8.40
Euro Invest Bk 10⅛ 94	100	107⅛	−0⅛	9.32
Euro Invest Bk 11⅛ 92	75	109⅛	+0⅛	9.12
Euro Invest Bk 11⅛ 93	50	109⅛	−0⅛	8.46
Euro Invest Bk 11⅛ 96	50	111½	−1⅛	9.44
Gen Finance 11 90	70	107⅛	−0½	9.12
Giro Vienna 10½ 93	60	107⅛	−0⅛	9.00
GTE Finance 10⅞ 92	50	109	−0⅛	8.96
Ireland 10⅛ 95	50	104⅛	+0⅛	9.44
Italian Govt 10½ 92	600	105⅞	−0⅛	9.32
Italian Treas 11½ 90	60	109⅛	0	9.12
Kreditbank L 9⅛ 92	75	101⅞	−0½	8.98
Megal Finance 11⅛ 94	100	105⅛	−2	10.27
Nippon Cred Bk 11 91	50	107⅛	−0⅛	9.11
Nordic Inv 6 94	50	120⅛	−0⅛	8.63
Post Och Kred 10⅞ 92	50	104⅞	0	9.79
Royal Bk Can 10⅞ 89	85	105⅛	−0⅛	8.60
SNCI 10⅞ 94	60	107⅛	−0⅛	9.56
Swedish Export 11 89	58	103⅛	+0⅛	9.74
West LB 10⅞ 91	50	104½	−1⅛	9.72
World Bank 10⅛ 88	100	108⅛	−0⅛	8.12

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Nat Aust Bk 12½ 89	40	96	0	13.94
PIBA 12⅛ 89	50	96⅛	−0½	13.58
State Bk NSW 12⅛ 89	40	96⅞	−0⅛	13.36
Woolworths 14⅛ 88	25	99⅛	−0⅛	14.50

STERLING STRAIGHTS	Issued	Price	Chg. on week	Yield
BAT Intnl 10⅛ 91	100	99⅛	+0⅛	10.76
Denmark 10⅛ 89	75	99⅛	+0⅛	10.79
EEC 11⅛ 94	80	102⅛	0	10.95
Europarat 11⅛ 92	50	102⅞	+0⅛	10.87
Euro Invest Bk 10⅛ 92	75	99⅛	+0½	10.78
Finland 11⅞ 88	50	102⅞	0	10.66
Grand Met Fin 10⅞ 90	50	99⅛	+0⅛	11.01
Int-Amer Dev 11⅛ 91	60	101⅛	+0⅛	11.02
Int Stand Elec 11⅛ 89	50	100⅛	0	11.03
Inv In Indust 11⅛ 91	50	103⅛	0	10.71
Ireland 11⅛ 94	50	101	0	11.18
New Zealand 10⅛ 89	100	99	+0⅛	10.93
SNCF 11⅛ 94	60	101⅛	0	10.92
World Bank 10⅛ 88	100	100⅛	0	10.49
World Bank 10⅛ 89	50	100	0	10.60
World Bank 11 94	50	100⅛	+0⅛	10.87

EQUITY WARRANTS	Expiry date	Price	Chg. on week	Prem.
Commerzbank DM	31/5/88	59	0	1.32
Ciba-Geigy Int £	1/11/93	322½	+14⅛	108.59
Credit Suisse	31/5/88	45	+0⅛	7.77
Deutsche Bank DM	18/6/91	121½	0	−29.61
ICI Finance	7/6/90	257½	−2½	202.11
IC Industries	15/6/88	14⅛	−0⅛	−13.77
Jusco	22/12/88	81⅛	+2⅛	15.68
Minebea Co	20/2/89	56⅛	+2⅛	50.93
Mitsubishi Cp	7/11/88	40⅛	+0⅛	15.87
Mitsui	10/12/87	27⅛	+1⅛	15.61
Nissho Iwai	1/2/89	14⅛	0	23.15
Nomura	31/10/88	83⅛	−1⅛	8.25
Siemens Wstn DM	31/5/90	340	0	−0.86
Swiss Bank Cpn	20/12/88	88⅛	+0⅛	10.07
Toray Ind	5/3/97	38⅛	+5⅞	6.34
Veba Intnl	15/12/93	57	0	2.40

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	14/2/88	24⅛	−9⅞	10.72
Coca-Cola 11⅛ 91	28/11/88	39⅛	−2⅛	11.17
Commerzbk 13⅛ 91	17/7/88	98½	−4	11.19
Du Pont 13⅛ 89	25/9/88	70⅛	−0⅛	10.55
Eksportfinas 13⅛ 89	15/9/87	78⅛	−2⅛	10.69
Gen Elec 12⅛ 91	7/8/87	71⅛	+0⅞	11.00
Ind Bk Jpn 12⅞ 91	5/10/89	76⅞	−2	11.05
Inv In Ind 10½ 91	1/12/88	90	0	10.06
McDnlds F 11⅛ 94	5/1/89	33⅛	−0⅛	10.46
Oester Lnbk 13½ 89	9/8/87	80⅛	−2⅛	10.79
Texaco Cap 12⅛ 92	1/9/87	59	−4⅛	11.57
Trnto Dom 12⅛ 91	6/4/88	54⅛	−2	11.20

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

† Perpetual.

Closing prices on October 11.

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Jonathan Carr on the rationale behind a corporate spending spree in Germany

Daimler sees strength in diversification

WHAT IS Daimler-Benz up to? For decades the company has concentrated on the business it knows best, vehicle manufacture. Its profits and sales have purred upwards with the effortless ease of its prestige Mercedes cars; its business strategy has been marked by that canniness and prudence characteristic of that Swabian part of South Germany where Daimler is based.

Suddenly it has gone on what to many observers looks like a spending binge. Already this year it has acquired full ownership of MTU, the diesel and aero engine maker, and a controlling stake in Dornier, the aerospace concern. Those two acquisitions alone are estimated to have cost around DM 1bn ($376.2m). Now Daimler is out to take a major stake, perhaps a majority, in the electricals group AEG in a deal—details of which should emerge today—which could cost more than another DM 1bn.

No one suggests that all this seriously strains Daimler-Benz financially. After piling up net profits of DM 1.1bn in 1984 on sales revenue of DM 43.5bn, the company is estimated to have had a cash hoard at the start of this year of close to DM 10bn. Turnover has jumped by 28 per cent in the first eight months to about DM 34bn, car exports soared by 30 per cent and new registrations in West Germany rose by more than one fifth.

The results so far, and the likely increased dividend, seem to underline the merit of the saying that "a good cobbler sticks to his last." Why then the sudden wave of apparent diversification?

Dominant force

The MTU and Dornier cases (1984 turnover DM 2.2bn and DM 1.5bn respectively) are pretty clear. Daimler already held 50 per cent of MTU, whose speciality in high quality civilian and military engine-making—for example for the Tornado combat aircraft—dovetails nicely with the auto maker's own skills.

Dornier is not just West Germany's second biggest aerospace concern (after MBB) but is highly active in electronics and research into new materials like carbon fibres and industrial ceramics. Daimler thus emerges as the dominant force in a triangle of high technology companies whose strengths in large degree complement one another. That certainly does not mean that Daimler is on the retreat from making cars—it will be turning out more than 540,000 this year.

It means three other things: that Daimler is better arming itself with the technological skills for the "car of the future"; it is extending into growth areas close to its own which could help counterbalance its relatively flaccid commercial vehicles activities; and last but not least, it helps strengthen its role as a military contractor.

The value of an AEG connection, let alone a take-over, to Daimler-Benz may not be so obvious at first sight. After all, isn't AEG the floundering giant which ran up huge losses for years, missed bankruptcy by a hair's breadth, and finally had 60 per cent of its debt written off through a "Vergleich" (composition proceedings)? Roughly half its DM 620m capital is now in the hands of more than a score of banks.

AEG even had to give up one of its brightest high technology assets, the telecommunications subsidiary ANT, as it sought to drag itself out of its financial slough.

Useful addition

Despite that, there are some firm industrial and financial arguments in favour of a Daimler stake. Whatever its past miseries, AEG remains a force to reckon with in key growth sectors like radio, radar and communications systems (13 per cent of the group's DM 11bn turnover last year), office technology (11 per cent) and high-quality power engineering. Roughly 15 per cent of turnover comes from the military sector, a useful addition to the Dornier and MTU activities, while overall research and development spending last year totalled DM 800m or more than 7 per cent of sales.

AEG has two other strong advantages for an intending buyer. On the one hand the electricals group is clearly on the financial mend. Last year it produced an operating profit of DM 100m, cut its net financial liabilities by more than a half from 1983 and strengthened its still weak capital base. Its share price, suspended last Friday pending the announcement due today on the company's future, has been trading as high as DM 182 compared with the low of DM 23 in 1982.

On the other hand AEG is still carrying forward several billions of D-Marks in past losses which can be set against tax—a worthwhile consideration for the hugely profitable, and high tax paying, Daimler-Benz. Indeed, tax savings through an AEG purchase could go far to match the sum Daimler spent on MTU and Dornier this year—just the kind of financial deal Swabians like best.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Mitsubishi Estate ¶‡	75	1992	7	6⅞	100	Nikko Secs (Eur)	6.875
Northern Telecom ɸ‡	50	1990	5	10	100⅝	Orion Royal Bank	9.836
Gaz de France ɸ‡	100	1995	10	11	103⅞	Morgan Stanley	10.360
J. P. Morgan ‡	100	1992	7	10⅜	99¾	Morgan Guaranty	10.427
Japan Finance Corp. ‡	100	1995	10	10½	100½	IBJ Int.	10.417
Ins. Olympiques (Quebec) †‡	250	1994	9	(a)	100	CSFB	-
Tokyu Corp. ¶	70	1990	5	5⅝	100	Nomura Int.	-
Denmark ɸ‡	100	1995	10	11	104¼	Morgan Stanley	10.299
Dayton-Hudson ‡	100	1995	10	10⅝	99¾	Goldman Sachs	10.667
R. J. Reynolds ‡	150	1991	6	10	99⅝	UBS (Secs)	10.058
AUSTRALIAN DOLLARS							
Sanwa Australia ‡	30	1990	5	14⅛	100½	J. H. Schroder Wagg	13.979
D-MARKS							
Jydsk Telefon ‡	125	1995	10	6¾	100	Dresdner Bank	6.750
Prov. of Manitoba ‡	200	1995	10	6⅜	99½	WestLB	6.444
Dow Chemical ‡	300	1995	10	6¾	100	Deutsche Bank	6.750
Deutsche Bank Fin. ‡	500	1991	6	6	99¼	Deutsche Bank	6.153
IFC** ‡	100	1992	7	6⅝	100	Bayerische Vereinsbk	6.625
SWISS FRANCS							
Toyo Radiator** ¶‡	33	1990	–	2⅞	100	Swiss Volksbank	2.875
Furukawa Co.** ¶‡	60	1990	–	2⅞	100	Crédit Suisse	2.875
GTE Finance Corp. ‡	150	2000	–	(7)	100	Sodītic	*
Asfinag ‡	150	1997	–	5¼	100	UBS	5.250
GP Corp.** ¶	50	1990	–	(3)	100	Crédit Suisse	*
Daiwa House Ind.** §	100	1991	–	(2⅛)	*	UBS	*
Ford Motor Credit ‡‡	170	1995	–	7¼	100	Crédit Suisse	7.250
ITT Corp. ‡	100	1995	–	5⅛	100	Mgn Guaranty (Switz)	5.125
Prov. Newfoundland	150	2000	–	(5⅝)	*	UBS	*
American Fletcher Corp. ‡	110	1995	–	5½	100½	Citicorp Bk (Switz)	5.434
Textron Fin. Corp. ‡	70	1996	–	5⅝	100	Bqe Paribas (Suisse)	5.625
ESB Of Ireland ** ‡	50	1992	–	5⅜	100	Crédit Suisse	5.375
Chisso Co.**	20	1990	–	(5⅝)	*	Crédit Suisse	*
Heron Int. Fin. ‡	150	1995	–	5⅝	100	Sodītic	5.625
ECUs							
Philip Morris ‡	120	1993	7.3	0	55.70	Bqe Paribas	8.346
ECSC ‡	80	1995	8½	8⅝	99½	Banca Comm. Italiana	8.702
Bank of Helsinki ‡	38.5	1996	10⅓	9	100	CCF	9.000
FRENCH FRANCS							
Electrolux ‡	250	1990	5	11⅛	100	BNP	11.125
LUXEMBOURG FRANCS							
EEC	1bn	1995	10	(8⅞)	(100)	Kredietbank Int.	*
GUILDERS							
World Bank **‡	100	1990	5	6½	99½	ABN	6.621
YEN							
Denmark ‡	15bn	1992	7	6¼	100¾	Fuji Int. Fin.	6.115
Fannie Mae ‡‡	40bn	1995	10	8	101	Nomura Int.	7.852
EDF ‡‡	20bn	1995	10	8	101	Nomura Int.	7.852
Mitsubishi Corp. ‡	20bn	1995	10	6¼	100¾	Nikko Secs (Eur)	6.147

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ɸ With bond warrants. ‡ Dual currency. (a) Equal to 3m Libor. Note: Yields are calculated on AIBD basis.

Philip Morris in bid for Australian unit minority

BY OUR FINANCIAL STAFF

PHILIP MORRIS of the U.S., the Marlboro cigarette and beverages group, is bidding for full control of its quoted Australian subsidiary, in an offer which values the unit at A$280.7m (U.S.$197.1m).

The bid for the 21 per cent minority in Philip Morris (Australia) is being made at A$11 a share. In Sydney on Friday, the shares jumped A$2.20 on the news to close at A$11.20—more than double the 1985 low of A$5.30.

In addition to its cigarette operations, the Australian company has a substantial presence in winemaking through its ownership of Lindemans, one of the country's leading labels.

Mr Bill Webb, Philip Morris' managing director for Australia, said the company had undertaken to introduce 50 per cent local equity into Lindemans within three years.

"We will be making Lindemans a potential vehicle for expanding our presence in Australia," he said. Lindemans was acquired in 1971.

The bid is being made ex the 20 cent final dividend paid for the year to June, when net profits of A$29.6m were derived from sales of A$593.9m. Mr Webb said approval had already been granted by the country's Foreign Investment Review Board.

● G. J. Coles, the Australian stores group which is in the process of merging with Myer Emporium, has sold its 8.9 per cent stake in Woolworths, the third force in the country's retail sector.

Australian Mutual Provident and the Commonwealth Superannuation Board paid A$65.5m for the stake, acquired by Coles early this year. Its presence was a strategic move amid the tussle for supremacy then being played out among the three, and which culminated in the Coles-Myer merger.

Delhaize ahead after eight months

By Paul Cheeseright in Brussels

GROUP PROFITS at Delhaize le Lion, the Belgian supermarket group which obtains about two thirds of its income in the U.S., are running ahead of 1984 after eight months of the current financial year.

The group gave no details but noted that operating profits in Belgium were higher than in 1984 when they came out at BFr 6.5bn ($120.6m). Turnover over the first eight months of this year was BFr 38.1bn, some 6 per cent higher than in the same period of 1984 — a rise which keeps pace with inflation.

Delhaize is still having trouble with Food Giant, one of its U.S. units, operating in the Atlanta region. Although operating profits rose in the first quarter they slipped back in the third, and after eight months turnover was $341m against $356m in the first eight months of 1984.

Transatlantic returns to profits after reshape

BY DAVID BROWN IN STOCKHOLM

TRANSATLANTIC, the Swedish liner shipping operation, has returned to the black following an upturn in its European liner operations, and an extensive rationalisation scheme instituted after its takeover last year of Broströms, its major domestic competitor. It forecasts a positive result for the year, after higher freight volumes in the liner division led to improved overall turnover of SKr 2.34bn ($282.9m) for the first eight months. Turnover was SKr 1.46bn for the first six months of last year, but the group is now reporting on a tertial basis and has not provided comparable figures.

Operating results climbed from SKr 33m to SKr 138m. Net financial costs doubled to SKr 107m, after which earnings were SKr 31m. The group reported a loss of SKr 32m during the first half last year. The liner operation generated SKr 84m, against SKr 4m, but other sectors weighed down the results.

The international liner operations as well as the bulk, tanker and offshore units continued to produce losses.

The group has sold a wholly-owned roll-on, roll-off vessel, and its minority shares in five other container ships. It was hit in the early part of the year by the high U.S. dollar rate, which eased towards the end of the period.

Fay Gjester adds from Oslo: Norway's Sigval Bergesen shipping group has announced pre-tax profits of NKr 221.9m ($28m) in the opening eight months of 1985, down NKr 9.1m on a year earlier. The company said the decline had been expected, and would continue. It reflects the ending of long-term charters, at profitable rates, on a growing number of the group's ships, which are now having to seek cargoes on today's difficult market.

The January to August 1985 figure includes profits of NKr 137.5m from ship sales, compared with NKr 75.1m

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CANADIAN IMPERIAL BANK OF COMMERCE
(A Canadian Chartered Bank)

Canadian $75,000,000
10¾% Deposit Notes due October 1, 1990

CIBC Limited

Commerzbank Aktiengesellschaft — Dominion Securities Pitfield Limited
Dresdner Bank Aktiengesellschaft — Goldman Sachs International Corp.
Hambros Bank Limited — IBJ International Limited
Merrill Lynch Capital Markets — Orion Royal Bank Limited
Salomon Brothers International Limited — Société Générale
Swiss Bank Corporation International Limited — Union Bank of Switzerland (Securities) Limited

Wood Gundy Inc.

Algemene Bank Nederland N.V. — Amro International Limited
Bank Brussel Lambert S.A. — Bankers Trust International Limited
Banque Internationale à Luxembourg S.A. — Banque Paribas Capital Markets
Bayerische Vereinsbank Aktiengesellschaft — Berliner Handels- und Frankfurter Bank
Crédit Commercial de France — Crédit Lyonnais
First Interstate Capital Markets Limited — Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der oesterreichischen Sparkassen Aktiengesellschaft — Kredietbank International Group
McLeod Young Weir Limited — Morgan Guaranty Ltd
Morgan Stanley International — The Nikko Securities Co., (Europe) Ltd
Nomura International Limited — J. Henry Schroder Wagg & Co. Limited

S. G. Warburg & Co. Ltd.

September 1985

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue / October, 1985

U.S. $100,000,000

Takugin International (Asia) Limited
(Incorporated in Hong Kong with limited liability)

Guaranteed Floating Rate Notes Due 1997

Payment of principal and interest unconditionally guaranteed by

The Hokkaido Takushoku Bank, Limited
(Incorporated in Japan with limited liability)

Takugin International Bank (Europe) S.A. — Salomon Brothers International Limited

Bank of China — Bankers Trust International Limited
Banque Bruxelles Lambert S.A. — Banque Nationale de Paris
Banque Paribas Capital Markets — Berliner Handels- und Frankfurter Bank
Citicorp Investment Bank Limited — County Bank Limited
Credit Suisse First Boston Limited — Deutsche Bank Capital Markets Limited
Generale Bank — Hong Kong Bank Limited
Kidder, Peabody International Limited — Kredietbank International Group
Manufacturers Hanover Limited — Samuel Montagu & Co. Limited
Morgan Guaranty Ltd — Morgan Stanley International
Nomura International Limited — Shearson Lehman Brothers International
Swiss Bank Corporation International Limited — Union Bank of Switzerland (Securities) Limited
S. G. Warburg & Co. Ltd. — Westpac Banking Corporation

Yamaichi International (Europe) Limited

October 14, 1985

LPC INTERNATIONAL FINANCE N.V.

(A WHOLLY OWNED SUBSIDIARY OF LEAR PETROLEUM CORPORATION)

OFFER TO EXCHANGE

$1,200 PRINCIPAL AMOUNT 8-1/4% CONVERTIBLE RESET NOTES

DUE APRIL 15, 1997

FOR ANY AND ALL OF ITS

$1,000 PRINCIPAL AMOUNT 8% CONVERTIBLE SUBORDINATED DEBENTURES

DUE 1995

LPC International Finance N.V. ("International"), a wholly owned subsidiary of Lear Petroleum Corporation ("Lear"), hereby offers upon the terms and subject to the conditions set forth in the Offering Circular dated October 4, 1985 and in the accompanying Letter of Transmittal (which together constitute the "Offer") to exchange $1,200 principal amount of 8-1/4% Convertible Reset Notes due April 15, 1997 ("New Notes") for any and all of its $1,000 principal amount of 8% Convertible Subordinated Debentures due October 15, 1995 ("Old Debentures").

The initial annual interest rate on the New Notes will be 8-1/4% and will be reset on April 15, 1987 to a rate which should, in the opinion of a United States investment banking firm selected by Lear, cause the New Notes to trade at 100% of their principal amount. The New Notes will be convertible into Common Stock, $0.10 par value of Lear ("Lear Common Stock") at an initial conversion price (subject to adjustment) of $20 per share. The conversion price may be adjusted, solely at the discretion of the Board of Directors of Lear on April 15, 1987, to 130% of a formula derived average market price of Lear Common Stock. The New Notes will be guaranteed on a senior subordinated basis by Lear.

All accrued and unpaid interest will be waived with respect to tendered and accepted Old Debentures. Interest on Old Debentures which are not tendered and accepted will not be paid until as soon as practicable following the expiration of the Offer.

The New Notes will be issued in registered form only.

The Offer will expire at 5:00 P.M., New York City Time, on October 28, 1985, unless extended by International. Any extension of the Offer will be announced by press release.

All tenders of Old Debentures may be withdrawn until 5:00 P.M., New York City Time, on October 21, 1985, and unless previously accepted may be withdrawn after 5:00 P.M., New York City Time, on December 3, 1985.

Each holder of the Old Debentures has the option to cause International to repurchase the Old Debentures on October 15, 1987 at 120% of their principal amount. This repurchase option, as well as all accrued and unpaid interest, has been taken into account in determining the amount and terms of the New Notes offered in exchange for the Old Debentures.

THE INFORMATION STATED HEREIN INCORPORATES BY REFERENCE, AND IS QUALIFIED IN ITS ENTIRETY BY, THE DOCUMENTS CONSTITUTING THE OFFER WHICH CONTAIN MATERIAL INFORMATION WITH RESPECT TO THE OFFER, INTERNATIONAL AND LEAR.

The transaction described herein has not been reviewed by the United States Securities and Exchange Commission and the New Notes are being offered in reliance on an exemption from registration afforded by United States Securities Laws. Nevertheless, the Offer is subject to the provisions of the Securities Laws of the United States and the New Notes will be governed by the laws of the State of New York.

In order to obtain promptly, at the expense of International, the documents constituting the Offer, contact:

The Exchange Agent

J. Henry Schroder Bank & Trust Company

J. Henry Schroder
Bank & Trust Company
One State Street
Corporate Trust Operations
New York, New York 10015
(212) 269-6500

Facsimile Transmission:
DEX 3700
Telecopier Number:
(212) 425-0542
Confirm by telephone to:
(212) 269-6500 extension 2144
Telex Number:
Domestic 12285 (Answer back SCH)
International 232376 (Answer back JHSB-UR)

or

at the main offices of
Citibank, N.A. in Brussels, Frankfort/Main,
London, Paris and Zurich and of Citibank (Luxembourg), S.A.
in Luxembourg, who will act as agent bank
on behalf of the Exchange Agent

The Information Agent:
D. F. King & Co., Inc.
60 Broad Street
New York, NY 10004
(212) 269-5550
(Reverse Charges)

or

Lear Petroleum Corporation
950 One Energy Square
4925 Greenville Avenue
Dallas, Texas 75206
(214) 363-6085
(Reverse Charges)

NOTICE OF REDEMPTION

To the Holders of

WELLS FARGO & COMPANY

12⅝% Subordinated Notes Due December 27, 1991, Series A

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Section 4 of the Series A Notes and Article Three of the Indenture dated as of December 27, 1984 between Wells Fargo & Company and Morgan Guaranty Trust Company of New York, Trustee, U.S. $5,571,000 principal amount of the Notes has been selected for redemption on November 13, 1985 at a redemption price of 101% of the principal amount thereof, together with accrued interest to said date, in the amount of $110.82 for each $1,000 principal amount.

OUTSTANDING NOTES OF $1,000 EACH BEARING THE DISTINCTIVE NUMBERS ENDING IN ANY OF THE FOLLOWING TWO DIGITS:

10 15 27 42 50 51 55 58 85 95

ALSO OUTSTANDING NOTES OF $1,000 EACH BEARING THE FOLLOWING DISTINCTIVE NUMBERS:

5	3905	7705	11105	14605	18405	22005	25305	29505	33405	37505	41305	45205	48505	51905
105	4005	7905	11205	14905	18505	22105	25605	29605	33705	37905	41405	45305	48605	52005
205	4105	8105	11305	15005	18705	22205	25705	29705	34005	38005	41705	45405	48705	52105
305	4405	8305	11605	15305	18905	22305	25805	29805	34105	38205	41905	45505	48805	52305
705	4505	8605	11705	15405	19005	22405	26105	30005	34205	38305	42005	45605	49005	52405
905	4805	8705	12005	15505	19105	22605	26305	30105	34405	38605	42305	45905	49205	52505
1005	4905	8905	12105	15805	19205	22705	26405	30405	34505	38705	42505	46005	49505	52605
1305	5105	9005	12405	16005	19305	22905	26705	30505	34705	38805	42705	46105	49705	
1505	5205	9305	12505	16105	19905	23205	26805	30905	34805	38905	42805	46205	50005	
1605	5405	9405	12605	16405	20005	23305	27205	31005	35305	39005	42905	46405	50105	
1905	5505	9505	12805	16505	20105	23405	27505	31105	35505	39105	43205	46505	50205	
2005	5705	9605	12905	16605	20205	23505	27605	31305	35905	39305	43305	46705	50305	
2205	6105	9705	13305	16705	20305	23705	27805	31605	36005	39705	43605	46905	50605	
2405	6305	9905	13605	16905	20705	23805	27905	31805	36105	39805	43705	47005	50805	
2605	6405	10005	13705	17105	20805	23905	28105	32205	36205	40105	43805	47305	50905	
2705	6605	10105	13805	17205	20905	24005	28205	32305	36305	40405	43905	47405	51005	
2805	6805	10305	14005	17305	21305	24205	28505	32405	36505	40605	44005	47505	51105	
3205	7005	10405	14105	17605	21505	24505	28705	32605	36705	40705	44105	47605	51505	
3305	7405	10505	14205	17705	21605	25005	28905	32905	37205	40805	44705	48005	51605	
3605	7505	10805	14305	18005	21805	25105	29005	33005	37305	40905	44905	48105	51705	
3705	7605	10905	14505	18305	21905	25205	29105	33205	37405	41205	45005	48405	51805	

Payment will be made in U.S. dollars on and after November 13, 1985 upon presentation and surrender of the above Notes with coupons due December 27, 1985 and subsequent coupons attached, subject to applicable laws and regulations, at the offices of the Trustee in London, Brussels, Frankfurt am Main and Paris, Swiss Bank Corporation in Basle and Kredietbank S.A. Luxembourgeoise in Luxembourg. Payments may, at the holder's option, be made by a check drawn on a dollar account of the Trustee in New York City or by transfer to a dollar account in a bank in Europe.

On and after November 13, 1985 interest shall cease to accrue on the Notes herein selected for redemption and all conditions precedent to such redemption shall have occurred.

WELLS FARGO & COMPANY

Dated: October 14, 1985

FINANCIAL TIMES STOCK INDICES

	Oct. 11	Oct. 10	Oct. 9	Oct. 8	Oct. 7	Oct. 4	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.14	84.10	84.08	84.02	84.16	84.31	84.31	76.02	127.4	49.18
Fixed Interest	90.09	90.06	89.96	89.86	89.89	89.85	90.09	83.17	150.4	50.53
Ordinary	1027.5	1017.8	1007.0	1007.2	1012.4	1016.5	1027.5	911.0	1027.5	49.4
Gold Mines	291.4	290.2	290.2	289.2	287.4	287.2	556.9	280.1	734.7	43.5
FT-Act All.Share	642.75	638.47	635.79	633.53	635.65	637.94	646.82	561.88	646.82	61.92
FT-SE100	1322.3	1314.1	1308.1	1303.3	1306.9	1313.0	1340.8	1206.1	1342.4	986.9

UK COMPANY NEWS

Fleet sees record profit and 50% dividend rise

AHEAD OF an increased offer from United Newspapers which is expected early this week, Fleet Holdings has written to its shareholders predicting record results for the current year and a 50 per cent increase in dividend.

As the deadline went over the weekend for the defenders to inject any new financial information into the battle, Fleet eschewed the opportunity to make a firm prediction of profits for the year to June 1986, preferring to give a general statement on current trading and expectations.

Its stance was branded as weak and unimpressive by the United camp even though last week Mr David Stevens, United's chairman, suggested that any forecast made this early in the year by Fleet should be treated with caution.

In his statement to Fleet shareholders Lord Matthews, chairman, wrote: "I am now able to report that in the current year to date Fleet's profits are well ahead of the results for the same period of last year. It is too early in the year to provide a precise figure for our expected results. However, the board is confident that this year will be another year of record results." The dividend payout will be lifted from 8p per share to 12p.

In the year to June 1985 Fleet's pre-tax profits came out at £28.5m compared to £22.2m.

There may not be a profits forecast but Lord Matthews has not resisted the opportunity to indulge in some critical rhetoric regarding the bidder's "inferior business" which has no compatibility with his "outstanding" operation.

He rounds off with the claim that "United has nothing to contribute to Fleet."

He also reiterates his commitment to the group and reports that he will be increasing his shareholding in the future. Lord Matthews is already the largest individual shareholder with over 1.9m shares. "Unlike Mr Stevens, who only owns 10,000 United shares, I am prepared to put my money where my mouth is."

United now has until Friday to come forward with a higher offer. Its current 11 for 10 equity bid values Fleet's shares at 332p, compared to a market price of 361p last Friday, and puts a value of £280m on the whole group. The cash alternative is 302.5p.

The City is expecting a significant increase in those numbers with predictions for the cash alternative ranging from 350p a share right up to 380p.

Fleet's advisors, however, claim to be confident that a second offensive, even at the higher levels, can be repelled.

New England still in loss

IT APPEARS unlikely that New England Properties will return to profitability in the current year, as the recovery to date has been slower than expected, the directors report.

Also, the company could well breach its borrowing limits under the Articles and trust deed of the 10 per cent convertible unsecured loan stock 1990, action is being taken to avoid this.

The proposal is to bring forward the conversion dates and holders of 68.66 per cent of the stock have agreed to convert into ordinary shares on December 5 1985.

The group incurred a pre-tax loss of £751,000 in the year 1984, but the directors were optimistic that it would return to profit this year. However, high interest rates and a lack of demand by new tenants to take up lettings in the completed developments have had their affect, and the group is still in loss for the first half—this amounted to £262,000, against £361,000, pre-tax.

In the current term, several lettings have been achieved and a sale completed for part of the development project at Guildford for £225,000. The extent of the loss for the full year depends on whether sales are realised for development projects.

At the end of 1984, borrowings were £9.45m against a limit of £10m, and by September 30 they had risen to £12.07m on a limit of £14m. But unless sales of properties are completed before December 31 it is likely that losses will continue at the same rate as in the first half while borrowings will continue to increase as the development programme progresses; and the group could breach its limit.

To avoid this, it is proposed to change the conversion dates from July 5 in the years 1988-1990 to December 5 1985, July 5 and December 5 in 1986-89, and July 5 1990. Hunting Group and Friesch-Groningsche Hypotheebank, who between them own or control 68.66 per cent of the stock, have agreed to convert on December 5 this year.

This will give them 3.15m shares and bring their holding up to 72.44 per cent of the shares in issue, assuming no other holders convert on that date. The advantages of the conversion by Hunting and FGH will be that capital and reserves increase by £786,669 and borrowing limits by £4.7m, and outstanding borrowings reduce by £786,669 and £78,667 annually is saved in interest charges.

Western Motor back in profit

Western Motor Holdings, the Plymouth-based management holding company—its principal operating subsidiaries are engaged in the retail motor trade—has returned to the black for the first time for several years.

In the six months to June 30 1985 pre-tax profits of £205,000 on continuing ordinary activities are reported. This compares with a loss of £53,000 in the same period last year, and losses of £269,000 at the year-end.

There were losses of £109,000 (£53,000) however, on activities terminated or to be terminated.

The directors say the improvement in the trading results are due, in part, to rationalisation measures, but they should not be taken necessarily as an indication of the outcome for the full year. Accordingly, no interim dividend is being recommended for 1985 for either class of ordinary shares.

The company is selling the premises at Marsh Barton, Exeter, to Helston Garages, for the sum of £575,000. The proceeds will be utilised to reduce group indebtedness.

Stated earnings per 25p share were 2.69p against losses of 4.48p.

SNIT unitisation details

Scottish Northern Investment Trust (SNIT), which is fighting off a £115m takeover bid from Throgmorton Trust, has published details of its unitisation plan which it claims will give shareholders a better return than the Throgmorton offer.

Unitisation would lead to shareholders receiving units with a realisable value of not less than 95.1 per cent of the net assets of the company, after allowing for the costs of the plan.

This compared with a realisable value of only 90.3 per cent of net assets after allowing for the costs of the Throgmorton bid, SNIT said.

Unitisation not only avoids an immediate potential capital gains tax liability but also provides greater capital value, it added.

SNIT intends to offer its shareholders units in one or more of four unit trusts managed by Murray Johnstone (MJ), the Scottish fund manager, in return for their shares.

The unit trusts are: the Murray American Fund, an existing fund investing in U.S. shares and equity bonds with the aim of both capital and income growth;

Murray Equity Income Fund, a new fund designed to produce an income at least 25 per cent above the FT-Actuaries All Share Index;

Murray European Fund, an existing fund aimed at long-term capital growth with a modest income from European securities; and Murray Far Eastern Fund, a new fund investing in the Pacific Basin.

SNIT esitmates the gross annual yields of the American fund at 5.1 per cent, the European fund at 1.6 per cent, the equity income fund at 5.8 per cent and the Far Eastern fund at 1.5 per cent.

Because of restrictions on the holdings by authorised unit trusts of investments in unlisted securities, SNIT has agreed to sell its unlisted portfolio to Murray Johnstone, or purchasers which MJ will find, for £17.9m, $5.6m and C$800,000 depending on their location.

SNIT's hsareholders will be asked to approve these proposals at meetings on November 4.

LADBROKE INDEX
1,022-1,026 (+5)
Based on FT Index
Tel: 01-427 4411

House Property

A change in accounting policy and the cost of paying former directors has pushed the House Property Company of London into a loss of £4,000 for the half year ended June 30 1985 compared with a profit of £24,000 last time.

It is now policy that future sales surpluses arising on sale of investment properties will be carried to capital reserves, and dividends will be paid from revenue surplus. Under this basis, there is a loss per share of 1.2p for the period, against adjusted earnings of 1.7p and published of 17p, but the interim dividend is held at 3p net per share. The final in the previous year was 6p.

Administration expenses are up from £37,000 to £69,000 and include £20,000 compensation to Mr F. G. K. Duncumb, past chairman and managing director and payment to Mr R. Gray and Mr S. H. Jones costing £5,000.

SHARE STAKES

Changes in company share stakes announced over the past week include:

M.Y. Dart—Nepstar Finance and its shareholders, J. W. Newman and N. D. Shipp, now own 1.2m ordinary (6.2 per cent of that class and 5.8 per cent of total capital).

Turriff Corporation—Following a purchase of 210,000 shares, funds managed or advised by M and G Investment Management hold 761,000 ordinary (some 17.3 per cent of voting rights).

Trust House Forte—Kuwait Investment Office has reduced its holding of ordinary to 36.88m (4.73 per cent).

Barr and Wallace Arnold Trust—Kerry Firth holds 81,000 shares.

Ferranti—Basil de Ferranti, a director, through Guinness Mahon Nominees, has disposed of 625,000 ordinary reducing total holding to 7,146,890 (1.66 per cent). Director John Derek Alun-Jones disposed of 35,000 ordinary.

W. and R. Jacob—Namaval Holding Incorporated has reduced its ordinary holding to 11.03 per cent.

Smith Whitworth—J. A. G. Barker, director, sold 50,000 ordinary and holds 1,143,062 (28.57 per cent).

The Kingdom of Belgium

£100,000,000

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 10th October, 1985 to 10th January, 1986 the Notes will bear a Rate of Interest of 11¾% per annum. The Interest Amount payable on 10th January, 1986 will be £2,961.64 per £100,000 Note.

County Bank Limited
Agent Bank

Granville & Co. Limited

Member of The National Association of Security Dealers and Investment Managers

8 Lovat Lane London EC3R 8BP Telephone 01-621 1212

Over-the-Counter Market

Capitalisatn. £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,475	Ass. Brit. Ind. Ord.	131	—	6.6	5.0	7.3	8.7
—	Ass. Brit. Ind. CULS	137	—	10.0	7.3	—	—
3,184	Airsprung Group	55	—	6.4	11.6	9.2	12.0
1,125	Armitage and Rhodes	45	− 1	4.3	9.6	5.6	6.7
48,534	Bardon Hill	157	—	4.0	2.5	19.9	19.9
3,355	Bray Technologies	61	—	3.9	6.4	7.4	8.6
543	CCL Ordinary	155	—	12.0	7.7	3.8	3.6
1,300	CCL 11pc Conv Pref.	104	—	15.7	15.1	—	—
7,618	Carborundum Ord.	127	− 1	4.9	3.9	6.3	9.8
644	Carborundum 7.5pc Pf.	92	—	10.7	11.6	—	—
3,913	Deborah Services	50xd	− 2	7.0	14.0	5.2	6.8
41,204	Frank Horsell	645	+25	1.4	0.2	15.2	20.5
—	Frank Horsell Pr.Ord.87	524	+17	11.9	2.3	12.4	16.6
3,034	Frederick Parker	21	—	—	—	—	—
1,458	George Blair	79	− 1	—	—	3.2	5.9
1,665	Ind. Precision Castings	41	+16	2.7	6.6	11.2	12.1
15,135	Isis Group	190	+ 1	16.0	7.9	14.6	21.8
5,624	Jackson Group	108	—	5.5	5.1	7.2	7.2
34,389	James Burrough	248	+10	15.0	6.0	7.8	7.8
3,224	James Burrough 9pcPf.	93	—	12.9	13.9	—	—
9,066	John Howard and Co.	87	+ 1	5.0	5.7	6.9	10.9
3,240	Linguaphone Ord.	180	—	—	—	6.6	6.9
—	Linguaphone 10.5pc Pf.	90	—	15.0	16.7	—	—
16,365	Minihouse Holding NV	570xd	—	6.9	1.2	24.9	23.7
816	Robert Jenkins	80	− 1	—	—	10.4	22.8
1,260	Scruttons "A"	31	—	—	—	—	7.9
1,660	Torday and Carlisle	68xd	− 1	5.0	7.4	3.4	6.2
1,473	Trevian Holdings	320	—	4.3	1.3	18.5	18.2
5,181	Unilock Holdings	33	− 2	2.1	6.4	9.0	8.9
14,101	Walter Alexander	110	—	8.6	7.7	6.2	7.8
4,568	W. S. Yeates	200	+ 1	17.4	8.7	5.7	9.8

Prices and details of services now available on Prestel, page 48146

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −	Net Div.	Times covered	Gross Yield	P.E. Ratio
98	F.P.	7/11	103	98	AMS Inds. 5p.	101	−1	b51.25	5.0	1.7	16.4
—	F.P.	9/10	7	6	Bardsey Pfd. Ord.	7		—	—	—	—
—	F.P.	—	3	3	Do. warrants	3					
185	100	1/11	148	117	Britoil 10p	150		t13.0	3.0	8.6	6.2
90§	F.P.	8/11	105	98	✠Colorgen Inc. $0.01	100		—	—	—	—
125§	F.P.	8/11	135	130	✠Counter Products 5p	130		bg1.75	3.7	1.9	8.3
§88	F.P.	—	96	91	✠Cowells	91	−2	bg2.6	2.6	4.1	15.3
75§	F.P.	1/11	76	70	✠Electronic Data 5p.	70		bg1.6	4.2	3.3	10.5
120	F.P.	—	106	104	Fairbriar 10p	106		bg4.0	2.7	5.4	9.8
§94	F.P.	30/10	98	78	✠InfraRed $0.10	85	+1	Q2.15c	—	1.9	—
§20	F.P.	27/9	29	25	✠Israel (Jack L.) 4p	27		60.5	2.3	2.6	21.0
§62	F.P.	8/11	63	50	✠Just Rubber 10p	57		61.74	2.2	4.4	13.0
§79	F.P.	8/11	87	80	✠Kewill Systems 5p	82		g1.2	4.3	2.1	16.0
100	50	15/11	47	43	Nat. Home Loans 75p	47		—	—	—	—
§180	F.P.	25/10	184	165	✠Questel 10p.	170		bg4.0	3.5	3.4	12.2
§95	F.P.	—	100	97	✠Radius 5p	100		bg1.6	4.6	2.1	14.3
¶330	F.P.	1/11	405	343	St. Ive's 10p	405	+7	bg8.0	3.1	2.8	16.6
•	F.P.	—	18	15	Vantage Secs. - rrnts	18		—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −
87.305	£30	—	31½	29¾	Australia 9½% Ln. 2012	31½	
§91.443	£30	17/1	29¼	27½	Bank of Greece 10¼%Ln. 2010	29¼	
§96.458	£25	27/11	28⅛	25⅝	Brixton Est. 10¾% 1st. Mort. Deb. 2025	28⅛	+⅛
§100	£10	—	10¼	10¼	EastbourneWater 11.5% RedDeb.2005/8	10¼	
§98.324	£40	3/12	43¾	40¾	Est. & Gen. Inv.11¼%1stMort.Deb.2018	43¾	+¼
§97.617	£25	31/1	27⅜	25¾	Evans of Leeds 11% 1st.Mort.Deb. 2025	27¼	
88.465	£30	24/1	32⅛	29⅝	Intl. Bk. for Rec. & Dev. 9½% Ln. 2010	32⅛	
§100	F.P.	—	95	84½	✠Memory Comp. 7.5% Cnv.R.Pf1994/8	94½	
100	£50	13/11	50	47¾	Nat. Home Loans 8% Cnv. Uns.Ln. 2005	49	
—	F.P.	—	100⅛	99½	Nationwide 11⅛% Bds. 15/9/86	99⅞	−⅛

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price	+ or −
DM190	Nil	—	90pm	55pm	BASF A.G. DM 50	64pm	
11	F.P.	11/11	11¾	10½	Blacks Leisure 10p	10½	
48	F.P.	22/11	65	57	Burns-Anderson 10p	60	
85	F.P.	11/11	125	108	City Site Estates	125	
165	Nil	6/11	33pm	15pm	DRG	30pm	+1
210	F.P.	22/11	260	245	Emess Lighting	248	
5	Nil	30/10	12pm	3pm	Howard & Wyndham 5p	12pm	
10	Nil	12/11	¼pm	¼pm	✠Humberside Elect. 20p	¼pm	
235	Nil	6/12	78	55	ML Hldgs	75	+3

For Greenfields Black see Blacks Leisure.

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary unless otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment letters or fully paid. ‖ Introduction. ✠ Unlisted Securities Market. § Placing price. ‡‡ Dealt in under Rule 535 (3). ♥ Dealt in under Rule 535 (4) (a).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
Aitken Hume	Oct 30	Interim 2.25	*Harris Queensway	Oct 22	Interim due
Amersham Intl	Nov 12	Interim 2.2	*Harrisons and Crosfield	Oct 15	Interim 4.5
Associated Brit Foods	Nov 5	Interim 1.7	*Hawker Siddeley	Oct 16	Interim 4.1
BCA	Oct 30	Final 1.8	Henderson	Oct 30	Interim 2.25
Bank of Ireland	Nov 15	Interim 5.5	Hepworth (J.)	Oct 30	Final 5.5
*Bejam	Oct 16	Final 2	Hunting Gibson	Nov 12	Interim 2.0
Brit and Comwlth Shipping	Nov 8	Interim 1.8	Intl Signal	Nov 14	Interim 1c
*British Home Stores	Oct 16	Interim 1.75	Kwik Save	Nov 15	Final 2.8
Burton	Nov 13	Final 4.5	Land Securities	Nov 13	Interim 2.6
Common Bros	Nov 14	Final nil	*London and Northern	Oct 23	Interim 1.85
De La Rue	Nov 13	Interim 8.25	Lucas Inds	Nov 12	Final 6.0
Electrocomponents	Oct 30	Interim 1.6	Marks and Spencer	Oct 23	Interim 1.06
Ferguson Industrial	Nov 12	Interim 2.5	*Peachey Prop.	Oct 15	Final 4.5
*Flight Refuelling	Oct 30	Interim 1.1	Reed Intl	Oct 30	Interim 5.75
GEI Intl	Nov 13	Interim 1.94	Sainsbury (J.)	Nov 6	Interim 1.4
*Gerrard and National	Oct 23	Interim 3.0	Samuel Props	Oct 23	Final 4.0
Gill and Duffus	Oct 24	Interim 4.0	*Scot Metropolitan Property	Oct 18	Final 2.15
*Glaxo	Oct 14	Final 9.0	Smiths Inds	Nov 14	Final 9.25
Gt Portland Estates	Nov 14	Interim 1.0	*Unigate	Nov 27	Interim 3.0
*Hammerson Prop	Oct 14	Interim 2.0	Valor	Nov 15	Interim 1.235
			*Wolseley-Hughes	Oct 22	Final 12.15

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Ash and Lacy, Barham, Edinburgh Investment Trust, Hammerson Property Investment and Development, Honda Motor, John Mowlem, Rockware, Senior Engineering, UEI.

Finals: Attwoods, William Boulton, Bryant Holdings, Cradley Print, Glaxo, Medminster, TSW-Television South West.

FUTURE DATES

Interims—

Asda Property	Oct 18
Billam (J.)	Oct 17
Channel Tunnel Invests.	Oct 25
Farnell Electronics	Oct 16
Smaller Co's Intnl. Trust	Oct 17
Svenska Cellulosa	Oct 15
Western Bros.	Oct 21

Finals—

British Assets Trust	Oct 24
Lowland Investment	Oct 18
Medminster	Oct 14
Wolseley-Hughes	Oct 22

THARSIS

THE THARSIS PUBLIC LIMITED COMPANY

INTERIM STATEMENT FOR SIX MONTHS ENDED 30th JUNE, 1985

	6 months to 30.6.85 (unaudited) £'000	6 months to 30.6.84 (unaudited) £'000	Year 1984 £'000
Turnover	2,862	2,438	5,052
Profit before taxation	660	439	1,328
Estimated taxation	70	10	31
Profit after taxation	590	429	1,297
Earnings per share, calculated on 2,600,000 shares in issue	22.7p	16.5p	49.9p
	Tons	Tons	Tons
Pyrites Export Sales Tonnage	113,497	153,856	318,112

During the first six months there has been a reduction in the sales of mineral produced by Compania Espanola de Minas de Tharsis, S.A. to our European customers. The sales to Belgium, Italy and U.K. have been satisfactory but no sales have been made to our customers in Greece. It is expected that teh level of sales of mineral durin gthe second half will be similar to that of the first half of the year.

The sales of land and houses were substantially better in the first six months but as no houses have been built in recent years, we are now near to the end of the stock of houses available for sale.

Due to the international nature of our business the trading results are subject to fluctuations in exchange rates and during the first six months we have had to bear an unrealised loss in exchange of approximately £200,000.

The results stated above for the year to 31st December 1984 are abridged from the full accounts for that year, which have received an unqualified report fro mthe auditors and have been filed with the Registrar of Companies.

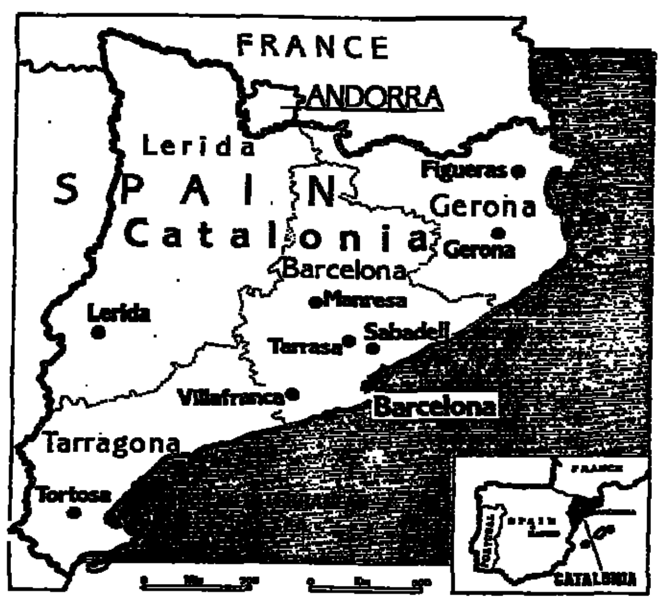
The Directors declare an interim dividend for 1985 at the rate of 2 pence per share (1984: 2 pence per share) (inclusive of any tax credit or tax deduction), amounting to £52,000, payable on and after 4th November 1985.

The Chairman of the Company is Mr Frédéric Velge.

FINANCIAL TIMES SURVEY
Monday October 14 1985

Catalonia

More diversified and developed than any other part of Spain, the region sees itself as the one most linked to Europe when the country joins the European Community in January. Politically and culturally, Catalonia retains its distinct identity



ON OTHER PAGES

Broad support for autonomy

By David White
Madrid Correspondent

ON THE overnight train from Barcelona to Madrid, the smart young Catalan engineer who had occupied the other bunk in the sleeping compartment peered out of the window at an isolated station. "We must be getting close for sure," he said, "because the clocks don't work already."

That, in a nutshell, is how the Catalans tend to regard the remainder of the peninsula. The standard word they use for Castile is "the steppes."

More developed and industrially diversified than any other part of Spain, Catalonia sees itself as the region closest and most linked to the Europe which Spain will be joining when it becomes an EEC member in January.

With a relatively tiny primary sector, its economic structure resembles many areas of northern Europe, except that its per capita income, while higher than the Spanish average, is still almost 40 per cent below the EEC's.

Catalonia is 6 per cent of Spain in land area, and has 16 per cent of its population. But it accounts for 20 per cent of the gross domestic product, 22 per cent of exports, 24 per cent of industrial added-value and receives 29 per cent of its foreign visitors.

Regarding other Spaniards as unserious, impatient with long-winded central administrators, the somewhat clannish Catalans do not on the whole "connect" with the rest of the nation. Their history and the rises and falls in their fortunes have up to recent times been out of phase.

Modern Catalan nationalism, which grew out of the local bourgeoisie in the last century, has roots going back to the Middle Ages, to the different kingdoms that emerged during the interminable "reconquest" against the Moors, and to the antagonism that developed between Castile and the Mediterranean seaboard.

Focus

Consciousness of what Catalan nationalists call "the country" (meaning Catalonia) has a strong focus in the metropolis of Barcelona, where half the region's 6m inhabitants live and which, although Madrid has done much in the last few years to redress the balance, has long been thought of as Spain's cultural capital.

Barcelona's place in both arts and science is still considerable. In theatre, for instance, there is little worth noting in Spain today that is not being done by Catalans.

The revival of Catalonia's autonomous institutions—the Generalitat—for the first time since the Civil War has rallied a broad sector of support behind Sr Jordi Pujol, its president since the first elections were held in 1980.

This support has crossed normal political borders. Sr Pujol's Convergencia party presents a potent mix of conservatism and Catalanism, at the same time abiding by Spain's constitutional framework and staking nationalist claims. The 55-year-old president, former Scout, militant Catholic and doctor, is one of the Spanish politicians to enjoy most charisma, next to Sr Felipe Gonzalez, the prime minister.

Like the latter, Sr Pujol rose to prominence in the internal opposition to General Franco. Just as Spain's current brand of socialism is characterised as *felipismo*, the prime political force in Catalonia has come to be known as *pujolismo*.

The Socialists gave up their chances of becoming dominant in Catalonia when they opted to sell the image of a national party and to exorcise the spectre of "separatist Reds." Although the Socialist Party holds the main town halls, including Barcelona with its long Left-wing tradition, and polled the largest number of Catalan votes in the last general election, it has suffered in regional elections. When the 135-seat Catalan parliament was renewed last year, Convergencia increased its seats from 43 to an outright majority of 72.

The formula that helped bring the Socialists into government in Spain was at the cost of their Catalan component—a fact sorely felt by local Socialist leaders. This situation looks unlikely to change as long as they remain in power in Madrid.

Powers

Relations between the Generalitat and Madrid have degenerated as a result of a row on finances, following cutbacks in the state budget for 1986. These affect the transfers that enable Catalonia and other autonomous regions to exercise the powers that have been devolved to them. Only the Basque Country and Navarre have arrangements that allow them to collect and spend their own revenue.

The only margin available to Catalonia under the present system is to levy special taxes or take on debt. Apart from a bingo tax and a few odds and ends, it is entirely dependent on transfers of one kind or another from Madrid for its own budget, which for this year totals Pta 384bn ($2.4bn). Half of this is taken up by social security, and a quarter by education.

A new permanent system to establish Catalonia's share of state revenue and give it leeway in how to spend it should have come into effect after the first six years of autonomy—that is, starting next year—but Madrid has put it off.

Sr Pujol voices two complaints: that Catalonia is being worse hit than other regions, and that the government is not fulfilling the devolution laws. The financing system as it stands, he argues, "leads to total economic asphyxiation, and the destruction of autonomy."

Other parties, even local Socialists, concur on the issue. In the past, Catalan nationalism has always been fed by the argument that the region serves as a milch cow for the coffers of Madrid.

Catalonia's voters have been smart in helping to ensure one party's success nationally and installing another one in the Generalitat. The autonomy arrangement places Sr Pujol in an ideal political situation in that the Generalitat can always ask for more without having to bear responsibility for levying the taxes.

Omnipresent in the region, the Generalitat has been active in building roads, hospitals and elementary schools, and has been able, despite its adherence to Right-wing economic doctrine, to promote a social image.

Sr Pujol's party now wants to regain the leverage it enjoyed in Madrid under the previous Centrist government, which needed its votes in Congress. In the rest of Spain, the party's Sr Miquel Roca is trying—with some difficulty in the initial stages — to build up a new force in the centre through a new democratic reformist party. In Catalonia, however, Convergencia is sticking to its own identity.

The claims of the Catalans and Basques, and the unrest they caused in the Right-wing military establishment, led the Madrid authorities to adopt a policy of equal rights for all the country's 17 regions. But now that the military threat has died down, there is at least tacit acceptance that these "historical nationalities" are cases apart and merit differential treatment.

Autonomy has been a smoother process in Catalonia than in the Basque country. Political violence is minimal. Nobody except for fringe groups has really gone out to exploit anti-Castilian feelings such as existed at the time of the Civil War. The pragmatic Sr Pujol is unambiguous in his acceptance of the 1979 statute as the "definitive solution" for the region.

The Catalan language has won back its status with a relative lack of antagonism. In most of the region Catalan is the natural tongue—although not in the industrial belt of Barcelona. Those born outside the region or of parents who were born outside make up 60 per cent of the population, but understanding of the language is becoming almost universal.

All schoolchildren now learn the language and the region's Catalan-language television channel is the best in Spain. The unsuspecting visitor risks being caught out—or, if he fails to understand a "wet paint" sign such as those placed recently, in Catalan, on benches in Barcelona zoo, of being branded with green stripes.

More than any other region, Catalonia has promoted itself abroad ahead of EEC entry—bending the rules, since foreign trade is one of the areas over which the central government has reserved exclusivity.

Its industry—which has brought a tripling of the population since the start of the century—has been through a deep crisis, resulting in a drop in the relative weight of manufacturing in the economy and heavy unemployment in the immigrant zones of Barcelona.

On the other hand, Catalonia, with a versatile web of medium-sized companies, has little involvement in the heavy industries that have provided most of Spain's recent economic nightmares.

This has meant that apart from textiles—the sector that gave Catalonia its industrial leadership from the 18th century onwards—Catalan industry has not come under state-backed restructuring programmes and has had to undertake its own, costly reconversion.

The traditional prototype of the Catalan businessman is family-oriented, austere, discreet, wary of publicity and of the administration. He is punctual and works long hours but is governed by a short-term outlook. But the old father-son image has given way to new blood in the wake of the crisis. According to Sr Josep Maria Cullell, the Generalitat's economy chief, the list of main business names and top taxpayers has changed completely in the last 10 years.

There are now some tentative signs of recovery and fresh initiatives as the region turns towards new fields in sectors such as electronics, fashion, cosmetics and food-processing. It main advantages over the rest of Spain are its pool of management skills and—a product of its closeness to the border—its capacity for introducing new ideas.

The prospect of competition in the EEC is feared by many, but membership stands to benefit Catalonia by giving it a new role in Spain's distribution structure. Ambitious improvements in trans-Pyrenean communications have been begun, with the aim of a new "axis" connecting Barcelona with Toulouse and south-west France. Nothing better illustrates the region's sense of European purpose.

BASIC STATISTICS

Area	31,900 sq km
Population (1984)	6.08m
Gross Product (1981)	Pta 3,328bn
Imports (1983)	Pta 1,102bn
Main suppliers: U.S., West Germany, France	
Exports (1983)	Pta 621bn
Main clients: France, West Germany, Italy	
Employment distribution (1984)	%
Agriculture	6.7
Industry	37.3
Construction	7.4
Services	48.5
Unemployed	22.9

PEGASO, A DIVERSIFIED RANGE OF SPANISH PRODUCTS BUILT WITH THE HIGHEST QUALITY AND THE MOST ADVANCED PROCESSES OF INVESTIGATION, DEVELOPMENT AND TECHNOLOGY

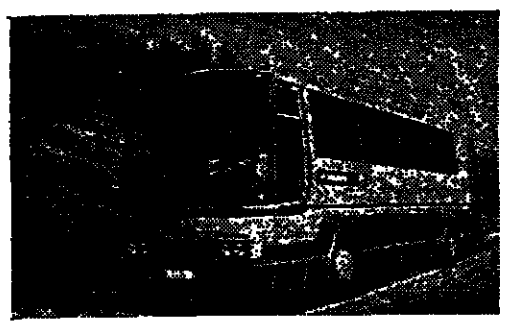
Pegaso, more than 80 years of Spanish technology

As an offspring of Hispano Suiza, founded in 1904 in Barcelona, ENASA started operating in 1946. At the time of ENASA's creation, the Instituto Nacional de Industria built on the long experience of the Spanish motor industry. It purchased the Barcelona installations of the well known Hispano Suiza and with the same team of engineers and machinery continued the research and technology which has now been maintained for more than 80 years.
ENASA's situation today may be summed up as follows:

- Plants at Madrid, Barcelona (2) and Valladolid on a total of 2 million square metres, with 350,000 square metres roofed.
- A payroll of 8,500 efficient and interested employees.
- A range of products to meet the

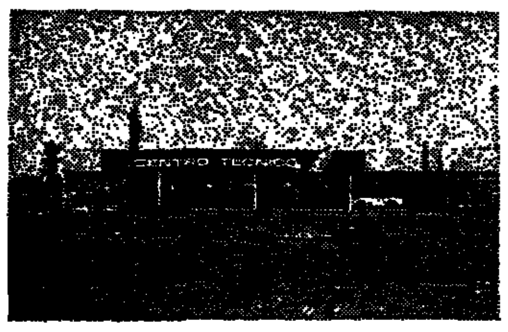

The new model Pegaso "Tecno"

variety of demands ranging from engines, trucks, tractor heads, vans buses and coaches and special military trucks and armoured vehicles. In 1984 about 12,000 vehicles of all types were manufactured.
- A Technical Centre, located at Barcelona factory, for advanced research and technology. The centre is engaged in a variety of research and development projects such as Computer Design (CAD/CAM), product trials, laboratory testing, and generally speaking all the processes that make for the high quality and availability of Pegaso products.
- A policy to expand operations in the domestic and international markets with significant results, shown by the Pta 63m in 1984, of which Pta 22m were from exports.
- The Company sells in 40 countries with medium and short term plans for an increased share of the market to set exports at 40% of the annual turnover as a priority for future planning.
- An extensive sales and service network in the domestic market with over 300 points throughout the country, made up by dealers and authorised service shops.
- An international dealer and service shops network with over 50 points along the highest traffic routes in Europe. Also dealers in service shops are found in other countries where Pegaso is sold to promote not only sales but also the customer service as a priority requirement to achieve recognition abroad.


The Pegaso bus "V.I.P.'s" Intercity

- Finally, continuing updated planning to improve product quality, increase productivity, reliability and efficiency, and further technology, research and development.
- The foregoing allows ENASA to meet the future with high expectations. Therefore ENASA has invested heavily to renew internal operations and has reached technical agreements with other builders to manufacture a product able to compete with the leading European makers.

After this view of ENASA's actual developments and PEGASO products we will detail the latest and leading contribution to the ENASA range of trucks: the PEGASO TECNO.
The new range of PEGASO TRUCKS covers some twenty basic types to meet all transportation requirements: Single frame or tractor heads with two, three and four axles; single and tandem axles; atmospheric, turbo-charged or inter-cooled engines with power ranging from 135 to 340 HP; 6 and 16 speed gearboxes; ten driving points; standard and deluxe extralong cabs. . . . Features to provide a PEGASO range of medium and heavy trucks to meet the most varied applications.
To start, the sturdily built 1214 and 1216 PEGASO dumpers and multi-purpose


Technical centre, Barcelona factory

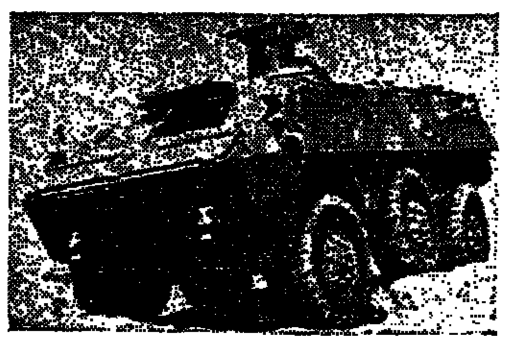
trucks up to 16.8 mt of total loaded weight. For heavier loads, the 20 mt, quite efficient for medium range hauling, the 1217 PEGASO with 170 HP engine or the 1223, turbocharged, 225 HP truck. The 2217 is a very useful addition four-wheel-drive off-the-road truck for extremely heavy duty applications.
As a medium haul truck, the 1231 R PEGASO with the 12-litre, 310 HP turbocharged engine, or for long hauls, the 1234 R intercooled 340 HP trucks meet the ticket.
The 1331 R, development as tractors, general cargo and dumpers, for medium

PEGASO

and long hauls are also powered by a turbocharged engine. These are the strong 6x2 trucks, while the two rigid four-axled (8x2) may be powered by both types of engine.
This wide range includes the 2331 R, 6x4 type tractor head; two concrete mixers and dumpers also 6x4 with 310 and 340 HP and one 8x4 with 310 HP engine
The new PEGASO TECNO is available in three tractor types: the 1231 T and the 1234 T, both 4x2 with 310 or 340 HP engines, and the 2331 with three axles (6x2), initially available only with the turbocharged engine.

New from Enasa/Pegaso

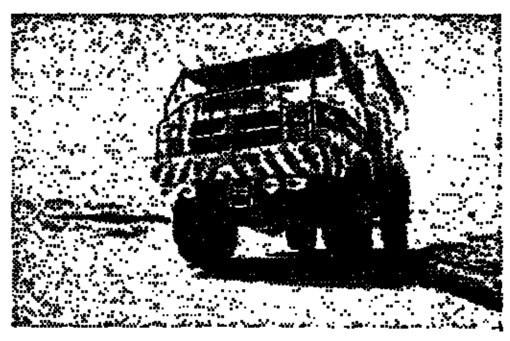
In addition to the new PEGASO TECNO range, ENASA supplies an extensive line covering delivery vans, light trucks, heavy tractor heads, public works units, buses, off-the-road trucks, BMR wheeled armoured cars and the VAP amphibians. Recently, PEGASO launched the 5317 bus with integrated air suspension. Powered by the 170 HP rear-mounted engine and semi powered gear shift for city use with a 9.70 metre-long body. For intercity traffic, it is supplied with the 6 synchromeshed speed ZF shift and 8.80 metre-long body.
The 2331 KE is a heavy duty PEGASO truck for public works. Powered by the 310 HP engine for 40 metric tonnes of full loaded weight.


The "BMR" special military vehicle

In the bus range we should point out the 6100 S unitised frame used to build the well-known buses for the World 1982 Football Games. The 5036 S line, one of the best known throughout the market has been expanded with the 5036 S/1 which now adds the 310 HP engine to the integrated air suspension and electric brakes of the previous models.
As a luxury model, ENASA supplies the VIP PEGASO coach 5036 S/1 version, especially developed to service a high standing, rather demanding users market. The vehicle was selected as the official transport for the 1992 Olympic Games which Barcelona has requested.
The 6420 PEGASO city bus, with unitised structure, integrated air suspension, and 200 HP engine, is an advanced, safe and comfortable vehicle, with easy access, to be marketed in the second half of this year.

Enasa military division

The defence line clearly shows the technical achievement and quality of ENASA products. The sturdy and reliable 3046 off-the-road truck (4x4) and the 3055 (6x6) have conquered markets both in Spain and abroad.
The ENASA armoured cars are also popular. They include the BLR with four-wheel drive powered by a 170 HP engine, and the vehicles in the BMR range. The all-wheel drive BMR model has six wheels with independent suspension, and a 310 HP engine, regarded as one of the best in this field.
ENASA's family of military products is based on three broad lines: logistic vehicles, tactical vehicles and armoured units. In addition, ENASA provides tech-


The Pegaso truck "Ralle Paris-Dakar"

nical assistance, know-how and management when required.
Military products are designed by ENASA's own Military Division which enjoys designing autonomy although for obvious reasons of cost economy and servicing efficiency it aims at the maximum use of mechanical components common to military and civilian vehicles.
In summary, ENASA's success is based in devoted attention to research development, high technology, maximum product quality, and professional management which results in increasing acceptance and recognition both in the domestic and international market.
ENASA Empresa Nacional de Autocamiones, S.A.

Industry buoyed by black economy

THE BEST industrial news for a long time in Catalonia was the first quarter of 1985 unemployment figures, which showed a 1 per cent drop. The figure of total unemployment in the region stood at 450,930, which represented 19.6 per cent of the area's active population.

For the first time this decade Catalonia's unemployed was marginally less than the overall Spanish total which stood at 19.8 per cent.

This follows more than a decade of unremitting gloom. Catalonia holds the depressing distinction of being the European area most affected by post-1973 industrial recession.

This is the conclusion reached by Sr Joan Hortala, the Minister for Industry and Energy in the Generalitat government, and by his predecessor in the post, Sr Vincenc Oller, in a recent joint paper surveying industrial trends in Catalonia.

According to the report's conclusions, between 1973 and 1981 industry passed from representing 48 per cent of Catalonia's gross added value to 40 per cent. The fall of eight percentage points was found to be unparalleled when examining 25 comparable European industrial areas.

In only four of those regions had the fall-off in industrial activity surpassed a three percentage point drop and the worst afflicted area after Catalonia was the Nord Pas de Calais, where the fall represented 6.8 per cent of that region's gross added value.

A second chief indicator of de-industrialisation centres on the employment statistics. The percentage of those employed in industry dropped from representing 52 per cent of the total active Catalan working population in 1973 to 46 per cent in mid-1983. During the period unemployment grew by at least two percentage points faster in Catalonia than it did in the rest of Spain.

More revealing still is the fact that while Catalonia represents about 23 per cent of the industrially-occupied total in Spain, a full 32 per cent of the jobs lost in Spain during the 1973-81 period were jobs in Catalonia. If the construction sector is excluded, the percentage of industrial jobs lost in Catalonia rises to 37 per cent of Spain's total.

Family factor

The figures show that by 1983 78 per cent of Catalonia's out of work were to be found in Greater Barcelona and the nearby industrial belts, and that last May 249,200 registered unemployed or 55.3 per cent of the Catalonia total were under 24 years of age. Clearly the massive number of first job seekers cushions the unemployment problem since the Spanish "extended family unit" factor comes into play.

On the other hand, the over 24 years old jobless are to be found in the strong industrial areas where a whole set of indicators, such as car registrations and electricity consumption, point towards continued, albeit unregistered, unemployment.

Sr Manuel Feu, Secretary-General of the Generalitat's employment department, treats the jobless statistics with caution. "If we really did have more than 200,000 family breadwinners unemployed there would be barricades and shots in the streets and there is nothing of that," he says.

The absence of real social strife for all the unemployment statistics is taken as a further indicator that the registered unemployed are making do, and more often than not doing well, on the submereged or "black" economy and labour market. Sr Feu estimates that the real unemployed are a tenth of the 201,730 over 24 years of age jobless figure.

According to the Generalitat's employment department, the trend towards inverting the unemployed graph is due to a comprehensive programme aimed at youth employment which is now making its mark. This involves generous rebates on social security payments offered by the central government in Madrid to employers hiring youths entering the labour market on short-term contracts. The rebates represent close on a full 100 per cent of the social security dues.

In addition, the Generaliat directly provides up to Ptas 15,000 ($92) a month of the salary of a first job seeker. Since the beginning of the year there have been more than 10,000 *such directly subsidised* jobs created. "They are almost certainly not new jobs," says Sr Feu, "they are 'submerged' jobs that have now come into the open."

Initiatives such as the direct salary grant denote a new optimism in Catalonia's industrial future and in its bid to regain, as the clouds of recession pass, its title of "the factory of Spain." There is more than enough to justify solid backing for the area's potential.

Catalonia has three invisible/visible assets that give it an edge on the rest of Spain. The first concerns the acquired skills of its working population; the second has to do with the diversified industrial profile of the area; and the third rests on Catalonia's geographic situation which becomes all the more important as Spain stands on the threshold of entry into the European Community.

The "factory of Spain" slogan dates back to the 18th century when Catalonia, or more precisely Greater *Barcelon*, was the sole area in the Iberian peninsula which could claim kinship with Europe's incipient precisely Greater Barcelona, was became a Manchester on the Mediterranean. First there were textiles and then there was a machine tool sector to service the looms and a chemical sector to provide the dyes.

Barcelona's and Catalonia's industrial heritage is the basis for the sophistication of the region's entrepreneurial class and labour force. It is no accident that Barcelona boasts the best business school in Spain, *just as it is a fact of* economic life that the area acted as a magnet for rural Spain.

Skilled labour

A feature, for example, of the redundancy programme at the Barcelona plant of the Seat car manufacturer was that those affected took their generous pay-offs and moved back to Andalusia and the Murcia where the general pattern was to open maintenance businesses and small mechanical concerns. Catalonia found itself exporting a skilled labour force to southern Spain.

Textiles are no longer the strongest sector. The cloth trade has been overtaken by metal processing (from tractors and automobiles to machine tools) which currently accounts for 33 per cent of gross added *value in Catalan manufacturing.* The chemical industry represents 15 per cent of the manufacturing pie and textiles take third place with 13 per cent.

The real diversified structure of Catalan industry is revealed by data, such as that uncovered by Sr Hortala and Sr Oller, which divides the area's output into 31 manufacturing sectors. Such is the diversification that 10 sectors are required to make up 70 per cent of Catalonia's industry and a further 10 to increase the proportion to 90 per cent.

Catalonia, for all its "factory" image and *ambitions,* is *not* a big industry centre and has no primary products. The accolade of Spain's industrial area in the *conventional sense belongs to* Bilbao and its surrounding province of Vizcaya.

In Catalonia, some 90 per cent of *industrial* employment and output depends on medium and small companies, taking a "medium" company at its Spanish face value which means a business with more than a dozen employees and fewer than 100.

With the decline of textiles, the powerhouse of Catalan industrial development is to be found in a myriad of small *auxiliary mechanical and metal* processing companies and in equally ostensibly unpretentious chemical sector businesses. It is in fact the latter which according to the Generalitat have shown the fastest growth in recent years and which account for 50 per cent of new foreign investment.

A key proportion of the auxiliary steel sector is clearly *dependent on the main automotive plants* based in Barcelona: Seat, the state-owned car producer that is currently linked experiences that a visitor to Iberica, the van and light truck producer owned by Nissan.

A key proportion of the steel sector depends on the big automotive plants in Barcelona.

A third auto concern in Catalonia is the state-owned Enasa truck company, once linked to International Harvester and now seeking an agreement with General Motors, which has a high-profile research and development centre in Barcelona.

The very diversity and flexibility of the industrial sector helps it to face the future with optimism. With Spain on the threshold of Europe and therefore facing a drastic end to its cosy protectionist economy, Catalonia finds that its manufacturing base and its absence of primary products can be turned to advantage.

Sr Miquel Puig, a senior official at the Generalitat's industry and energy department, says: "In reality our industry is a lot of small and skilled workshops which taken together turns us into a gigantic auxiliary industry centre. We can only benefit from European entry, the same as Northern Italy."

Still views represent a strong belief both in the potential in Catalonia for moving into high-tech and in the exceptional advantages that Catalonia enjoys by virtue of its proximity to France, its good communications and its Mediterranean shoreline.

There is a general assumption in Barcelona that Catalonia has been singled out for a star part in a high-tech European future. Theorists of industrial trends such as Sr Oller believe the cards are stacked in Catalonia's favour for two reasons: there is the skilled workshop infrastructure that can adapt to high-tech manufacture, and the overall environment that is particularly suited to research centres.

What Catalonia is seeking in this field is to reap the benefits of French and multinational investment in Toulouse. Barcelona, specifically, sees itself as the natural capital for this particular north east corner of the Mediterranean. What Catalonia offers fundamentally is a quality of life, or as Sr Oller succinctly puts it: "Sun, sea, snow and a nearby frontier."

The present incumbent of the industry and energy post at the Generalitat, Sr Hortala, says that his department's priority is the advanced technology sector. Thus the latest initiatives in this field by the Catalan government have to do with establishing and promoting R and D centres and with offering expert advice, focusing on high-tech reconversion, to the machine tool and auxiliary companies.

A specific aid to industry which is particularly well suited to the diversified and small company Catalan industrial profile consists in a Generalitat programme that offers a free consulting service to local companies. Sr Hortala's department subcontracts to management consultant companies and directly subsidises an initial diagnosis on design and technology improvements that these may make for Catalan firms which sign up for the programme.

In addition, since the summer, the Generalitat has created two companies which have complementary briefs dealing with joint ventures and capital risk. Similar companies have been set up elsewhere in Spain by regional governments seeking to invest directly in industrial projects and, by so doing, to shake up industrial apathy.

There is a specific difference in the Generalitat's proposed industrial ventures. Written into the statutes of the new Catalan government companies is an undertaking that their participation in all future activities must be limited to three years in any single firm. The Generalitat has no intention of nationalising and does not even wish to promote any form of mixed economy and of lasting private/public sector partnership.

Such guiding principles illustrate the 'fixed belief' among Catalonia's officialdom in the industrial recovery of the Catalan community, in the revival of domestic and foreign investment and, ultimately, in the future of the "factory of Spain."

Tom Burns

Catalonia, a mixture of history and economic progress.

Catalonia was created as a nation by Charlemagne 1200 years ago and already, by 1.359, the Generalitat, one of the first governments in the world at that time, had been created.

In spite of many historical problems, Catalonia has, since then, contributed in the formation of the european economy and its sociological structure.

Today Catalonia is the leading industrial region of Spain and amongst the first of its kind in Europe. It is the number one european tourist zone and its capital, Barcelona, is the greatest of the mediterranean cities.

Catalonia occupies 6% of the territory of Spain; its population 16% of the population of Spain. Its industry represents 25% of the national total and it share of spanish external trade amounts to 23%.

Catalonia has been selected by many multi-national companies as the area in which to set-up their centres of production and distribution and now, with Spain's entry in the European Community it is preparing to convert itself into the link between the Iberian Peninsula and continental Europe.

If you require information about Commerce, tourism in Catalonia or investment posibilities please enquire in the Department of Commerce, Consumers and Tourism of the Generalitat.

Generalitat de Catalunya
Departament de Comerç, Consum i Turisme
Passeig de Gràcia, 105. 08071 Barcelona. Spain

Clothes fever boosts textiles

ONE OF the more unusual experiences that a visitor to Barcelona can have is to spend an evening with assorted writers, painters and journalists and then to be told, sometime after midnight, that it is time the whole party moved on to watch a fashion show.

The end of September was "Fashion Week" in Barcelona and some of the collections for next summer were on show in a giant hangar that stands on the quayside of Barcelona's port.

What is immediately striking is that the week is light years away from the stereotyped exclusive salons packed with pearls, furs and cheque books. The Barcelona shows were youthful, mass crowd events that, while they lasted, emptied out the city's multiple rock discos and late night jazz clubs.

The fun thing to do was to watch fashion to the accompaniment of light shows and music. The huge audiences were as knowledgeable and appreciative as they were heterogeneous.

"Two years ago these big fashion events simply did not exist. Something has changed dramatically," says Sr Toni Miro, a Barcelona designer of women's and men's wear whose collection was one of the star events of the week. Sr Miro himself, like others in the Spanish fashion fraternity, has become a celebrity.

Clothes design is a fever that has gripped Spain and the chief beneficiary in industrial terms is the Catalan textile sector. Spain is in the process of bursting on to the world fashion scene and the chief characteristics of Spanish designs are youth, modernity, imagination and freshness. Catalonia's textile sector is changing accordingly.

Rising labour costs and the competition of the developing world sounded the death knell for a Catalan textile industry which served a mass Spanish domestic market and which, in its heyday, had looms set aside for meeting British orders. Since the mid 1970s the Catalan mills have undergone a painful reconversion process during which company after company went into receivership.

The crash of the textile companies was, however, deceptive. According to one Barcelona industrial consultant "at least" 20 per cent of the ostensibly bankrupt companies have continued to produce within the framework of the submerged or "black" economy.

The profile of the traditional Catalan textile company was of a small, family-owned concern. These companies have found a new life in the submerged economy by splitting into even smaller units or by simply retaining just a skeleton management that co-ordinates piecework by freelance employees working from their homes.

The new structure of the textile sector is ideally suited to the present fluid and innovative stage of Spain's fashion scene. Together with the new, young designers there is a whole new breed of promoters, entrepreneurs and industrialists who are willing to take their chances with designer clothes.

"What is happening is that there is backing at every level for the intangibles of the textile industry," says Sr Miro and by this he means that there is clear confidence in the creativity of Spanish fashion.

The backing goes all the way to the top, to the Industry and Energy Ministry in Madrid itself. The Ministry has given unprecedented prominence to a department specifically dealing with fashion and design and has allocated a Pta 3bn budget to promote the products of Sr Miro and others in the charmed circle of successful designers.

The last thing that officialdom seems prepared to do is crack down on a submerged economy that is producing the goods. The consensus view is of the "if it works don't fix it" variety. Events like the fashion week appear to indicate a rosy future for the clothing industry.

Tom Burns

Banking upsets rumble on

EVEN cosmopolitan Barcelona can be a small world. The opening of an art exhibition the other week brought two guest speakers face to face: the president of the Generalitat, Sr Jordi Pujol, and the president of the Spanish Art Critics' Association, Sr Cesareo Rodriguez Aguilera.

The piquant thing about the encounter — with Sr Pujol making his address in Catalan and Sr Rodriguez in Spanish — was that the latter is only a part-time art critic. His real job is that of presiding judge at the High Court, and therefore central figure in the issue of whether Sr Pujol will have to stand trial for alleged irregularities in the Banca Catalana fiasco.

The Banca Catalana affair, arising from the collapse of a banking group in which for 18 years Sr Pujol was the main driving force, is the latest in a long series of banking upsets in Catalonia.

It was precisely the region's failure to develop a financial power-base to match its industrial leadership of Spain that inspired Banca Catalana, and its saga has taken on extra dimensions due both to the political motives that went into it and its political fall-out.

Banca Catalana fell in 1982 and is now undergoing a 10-year cleaning-up process under Banco de Vizcaya. Through the Bank of Spain and the FGD, the special bank rescue fund, Pta 276bn ($1.7bn) is reckoned to have been poured in, and the eventual cost to the Spanish state is estimated at around Pta 100bn.

The new owner, which is using Banca Catalana as its main operation in the region, got rid of 1,000 employees in the first year.

The third and most critical book on the affair, *Banca Catalana, More Than a Bank, More Than a Crisis*, has just been published by three young Catalan journalists against a barrage of legal complaints.

Founded in 1959 when Sr Pujol was 29, the bank appealed to many Catalans, becoming a rapid success and later doing much to palliate the effects of economic crisis in the region. Its expansion in the 1960s and 1970s started with Banco Industrial de Catalunya (BIC), seen by Sr Pujol as a local answer to INI, the state holding company set up by Franco.

BIC built up stakes in a range of ventures considered essential to Catalonia, running into heavy losses in sectors such as synthetic fibres and taking upon itself a burden of industrial reconversion.

Catalana's present head office, originally built for BIC, is a measure of the outsized ambitions of the enterprise — 40,000 square metres of space in a luxurious structure of octangular modules, with indoor plants watered by a special Israeli-designed irrigation system.

Catalana took over seven more banks, culminating in 1979 with the failed Banco Industrial del Mediterraneo (BIM), when Catalana was already in some difficulty. BIM was to collapse a second time with its parent group three years later.

The authorities eventually assigned control of Catalana — together with BIC, BIM and Banco de Barcelona — to a pool led by Vizcaya, which went on to take sole command. Previously, four other subsidiary banks were hived off to other Spanish groups.

Sr Pujol had left the Catalana board five years before the collapse to devote his energies to politics and in the interim sold his shares.

False credits

Misappropriation proceedings were started against him and 24 other former directors in June 1984. Catalana is alleged to have operated a so-called "B Fund," channelling false credits into instrumental companies operating outside the control either of shareholders or of the banking authorities.

Sr Pujol will say only that he wants the case to be resolved soon and that he is "certain" of his own innocence.

Precedents to Catalana fill the pages of Catalonia's financial history, involving institutions that in their day were the biggest in the region and even in Spain.

Catalonia's first real bank, the Taula de Canvi, was founded in Barcelona in 1401, geared to Mediterranean trade and later imitated in other cities of the Kingdom of Aragon. It acted as a kind of municipal department and often had to use depositors' money to repay the city's debts to merchants. So it frequently had trouble when it came to refunding deposits. It limped on until its formal demise in 1865.

This century has seen banking giants disappear one by one, starting with Sociedad Catalana general de Credito in 1912. The two main banks during the 1914-18 war, when Catalonia thrived on Spanish neutrality, collapsed soon afterwards. They were Banco de Barcelona (the name was later revived by Catalana for one of its acquisitions) and Banco de Terrassa.

Banco de Cataluna, starting in 1920, grew to be the biggest Catalan bank before collapsing with the coming of the Second Republic in 1931, when funds from the national oil distribution monopoly were withdrawn. The three top Catalan banks at the end of the Civil War in 1939, Hispano-Colonial, Arnus and Urquijo Catalan, absorbed by major Madrid banks, no longer exist.

Between 1942 and 1959 the share of total Spanish bank deposits held by Catalan-based banks was halved from 6.7 per cent to 3.3 per cent.

In 1982 Banca Mas Sarda, an old family bank, had to be rescued and re-floated as part of the Bilbao Group. It had a "hole" of Pts 19bn and no fewer than 165 subsidiaries, mostly instrumental companies, including one which had as sole function the purchase of a yacht.

Lastly, the Rumasa affair in 1983 brought the seizure by the government of, among others, the group's Barcelona-based banking flagship Banco Atlantico, since sold to an Arab-Spanish consortium.

To say that banking has not been Catalonia's business forte would be an understatement. Barcelona has left Madrid unchallenged as a financial centre. The interbank market is there and although a quarter of Spanish shares by nominal value are traded on the Barcelona Exchange so is the main stock market.

There are outstanding exceptions, however, in contrast to commercial banks—and partly filling the gap—savings banks have enjoyed regular and peaceful growth, and have a much bigger place than in the rest of Spain.

Of Spanish commercial banks' customer deposits, those with head offices in Catalonia, including subsidiaries of other groups, account for under 10 per cent. But of savings bank deposits the region's 12 institutions account for 29 per cent.

Three of these, Caja de Ahorros de Cataluna, Caja de Barcelona and Caja de Pensiones para la Vejez y de Ahorros de Cataluna y Baleares (mercifully known as "La Caixa"), are respectively the seventh, third and first savings banks in Spain.

La Caixa, which ranks among the biggest Spanish banks, occupies almost half the sector in Catalonia. It was founded in 1904 to provide workers' pensions in an attempt by the enlightened bourgeoisie to calm unrest (there had been a general strike two years before).

It found a huge savers' market and expanded, first by buying up barber-shop locations all over the region and then absorbing other savings bodies—54 of them by the time the authorities imposed curbs on the sector in 1946.

While mainstream banks became involved in industrial growth, La Caixa's funds went mainly into housing loans and state-directed investments—modest but, in the event, safer earners.

Under savings bank legislation, La Caixa channels its surpluses into social and cultural projects, which include a science museum and more than 100 public libraries.

The other outstanding exception is Banco de Sabadell, the biggest independent commercial bank in Catalonia and the only one of any size to be still on its feet—remarkably since it was traditionally tied to the textile industry, the first to run into problems. It is untypical in that it did not spring from one of the big Catalan families but from a group of 127 small businessmen in the old wool town of Sabadell in the 1880s.

Until 1964 it had just one branch; but it then embarked on a path of expansion and diversification, specialising in short-term commercial discount and keeping clear of direct participations. Textiles now account for only about 12 per cent of its business. Sr Juan Corominas, the chairman, describes its policy through the industrial crisis as "a relative prudence."

Banco de Sabadell bank now has 25,000 shareholders, none of them holding more than 0.7 per cent and a waiting list of would-be new shareholders. The bank tries to encourage its best customers to take up shares. "That is why we are not on the stock market," says Sr Corominas.

Its branch network has grown to 190, with 170 in Catalonia and a representative office in London, soon due to become an operative branch. Elsewhere it works closely with corresponding banks and prides itself on its international service.

Low-key and cost-conscious, it has shown annual profit increases with monotonous regularity.

David White

Full tilt to capture the Olympics

BARCELONA's mayor, Sr Pascual Maragall, is cautious about the city's chances of staging the 1992 Oympics. "We are not the favourites, we are just the best placed," he says.

Sr Maragall knows as well as anyone that there will be a collective neurosis if the summer games are not held there. A few hours in the city is time enough to realise that "Barcelona '92" is an article of faith.

Sr Maragall likes to call Barcelona's relationship with the Olympic movement "a love affair." So far it has been a frustrating business of unrequited love. The city has lobbied for the games for decades unsuccessfully, but this has served only to make the passion stronger as in every good romance.

The singleminded pursuit of the Olympics has also meant that Barcelona has built up impressive credentials for staging the games. Constancy has its rewards and by no means the least of them is the fact much of the Olympics papaphernalia is already in place in Barcelona.

The city could stage the Games at short notice because the lobbying and the wooing have been accompanied over the years by no-nonsense real estate investment in Olympic stadia, swimming pools, cycle tracks and other facilities. According to Sr Carlos Ferrer Salat, senior official on the Barcelona '92 Organising Committee, 70 per cent of the necessary sports installations already exist.

However, the people of Barcelona are too sophisticated to succumb to mere blind passion but also have what the Catalans view as the defining characteristic of their race and culture, "seny," an almost untranslatable word generally taken to mean a mix of common sense, ancient acquired wisdoms and sound commercial acumen.

As Sr Josep Miquel Abad, executive secretary to the Barcelona '92 Committee, puts it: "There is not a single investment that we plan for the Olympics which we would not have to make sooner or later, Games or no Games."

The "love affair" with the Olympic movement dates back to the first world war when Barcelona was virtually assured that it would stage the 1924 Games. But Baron de Coubertin, the all-powerful founder of the modern Olympics, chauvinistically switched the 1924 venue to Paris.

To make amends the Baron promised Barcelona the 1936 Games but unfortunately the International Olympic Committee's meeting in 1931 in Barcelona coincided with the abdication of the then Spanish monarch, proclamation of a republic, a spate of rioting and general political instability. The 1936 Olympics went to Berlin instead.

Hopes

There was yet a third attempt to bring the Olympics to Barcelona in the 1960s. An Olympic swimming pool was built for the hoped-for 1972 Games (much the same an Olympic stadium was built for those of 1936) but the venue chosen was Munich. Thus Sr Maragall and the people of Barcelona feel, with some justification, that the city is "owed" a games and all hopes are pinned on 1992.

The actual decision by the IOC on the 1992 venue will be made when the committee meets in Lausanne in October next year. Lined up against Barcelona are Amsterdam, Belgrade, Birmingham (England), Brisbane, New Delhi and Paris. In theory, after the 1984 Los Angeles Games and the 1988 event in Seoul, the natural choice is for a European venue.

Part of Sr Maragall's sales pitch to bring the Games to Barcelona is that Spain is the only important western European nation that has never staged the Olympics.

In the meantime, Spain's credentials for organising major sporting events have been established by virtue of the 1982 football World Cup. Next year, moreover, Spain will host the world basketball and world swimming championships.

The budget set aside for completing the sporting infrastructure of the Games and for staging them is between Pts 80bn and Pts 90bn ($490m to $552m) with a ceiling of Pts 100bn. There is a second budget, put tentatively at Pts 60bn, which has wholly to do with what Sr Abad of the organising committee calls "ideal" capital investment. It is this chapter which brings into play the Catalan "seny" and the expressed desire that the Olympics should stimulate a city facelift.

There is a consensus view among the Barcelona authorities that the Catalan capital requires an external stimulus every 40 to 50 years to regenerate the city. Barcelona held a "universal" exhibition in 1888 and a second world fair in 1928.

The two exhibitions left a lasting imprint on Barcelona both by attracting new industry and through creating whole new residential areas. It is argued that another stimulus is now well overdue.

Sr Maragall sees the games as the ideal excuse for bringing about a long-planned development project by which Barcelona will gain an extensive seaside promenade and cease to be, as its citizens readily admit, a city which has its back to the sea.

The idea is to rip up an ancient railway branch line connecting central Barcelona to the town of Mataro, north of the city.

Removal of the line and buildings which obliterate the view of the Mediterranean will immediately free some 200 hectares of prime land along the coast, and permit the completion of drainage engineering projects which will rid the shoreline of pollution and protect it against flooding.

Under the "ideal" capital investment plans, the reclaimed land will be the site of the Olympic Village—which would live on after the 1992 sporting events as a 3,000 unit residential area complete with sea promenades and marinas.

"We could, of course, have the Olympic Village elsewhere for less cost," Sr Abad explains, "but now we have the opportunity of carrying out the coast project. It's too good to miss."

For all the Mayor's public caution nobody seems to have the slightest doubt in Barcelona that the city's future will be fired by the Olympic torch.

Tom Burns

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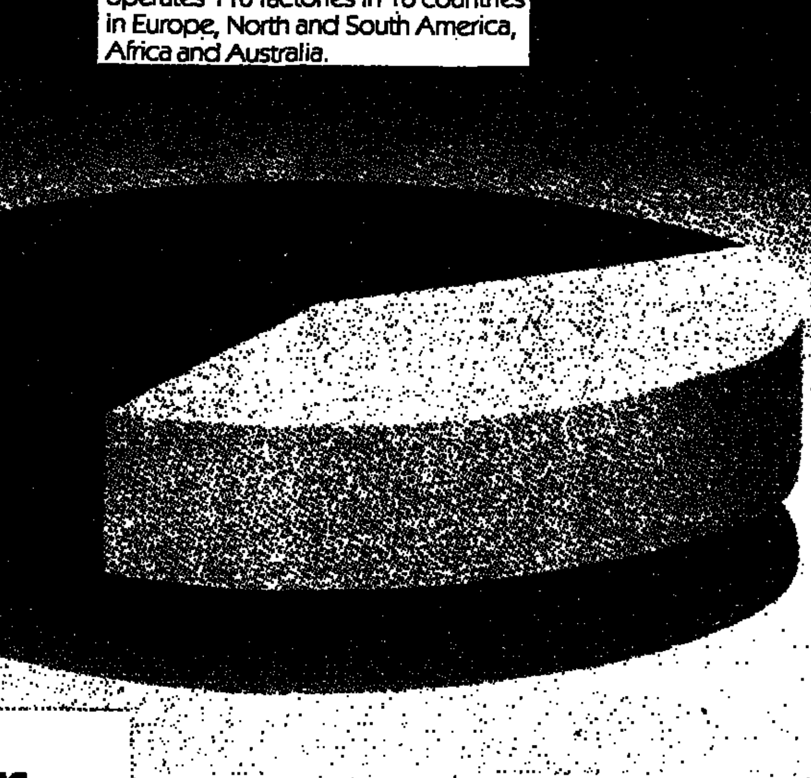

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Tourism: diversity that satisfies most tastes

TOURISM in Catalonia is a case of sitting back and laughing all the way from the bureau de change (or "canvi" as the Catalan languag, has it) to the bank.

The region has it all: standing room-only beaches, overshadowed by concrete tower blocks which are blasted at night by disco pulsations; quiet coves, known to the scuba diver, that can be reached only by scaling down rocks cliffs; little-known market towns which boast Romanesque churches and Michelin-starred restaurants; ski resorts that undercut their Euro competition at every level and Barcelona itself, which can satisfy most tastes.

Catalonia's 12,000-plus square miles contain 2.5m registered beds available for tourists. The area receives 9m foreign visitors a year who can be properly classed as tourists because they spend more than two nights in Catalonia and, according to the latest figures, there are 150m overnight stays by visitors a year in the region—many of them Catalans taking trips. Such statistics prompt immediate visions of a Catalonia looking like a giant airport lounge.

The official estimate is that 250,000 people are employed in the sector, or about 12 per cent of Catalonia's working population, and tourism is reckoned to generate 11 per cent of Catalonia's income.

There are other parts of Spain in which tourism makes an impressive impact on the local economy, notably the Costa del Sol in the south, Benidorm in Valencia, and Mallorca in the Balearic Islands. Catalonia is somewhat different if only because as the director-general of tourism, Sr Angel Miguelsanz, puts it: "Here we don't depend on charter flights and tour operators."

What makes Catalonia different within Spain's tourism sector is that out of its 2.5m registered beds for tourists a full 75 per cent are to be found in apartments and private villas as opposed to hotels. Air travel and charter flights bring only about 10 per cent of the *bona fide* tourists to Catalonia.

Close on 90 per cent of Catalonia's foreign tourists enter the area in private cars and in buses and descend along the motorway from La Junquera on the French frontier to the Costa Brava and the Costa Dorada resorts. The visitors are French, by the hundreds of thousands, Germans and Italians with the British taking a back seat.

"We didn't notice this year's drop in British tourism," said one Generalitat official with satisfaction.

In contrast to the charter flight and tour operator—dependent resorts, which earn their livelihood from the block booking of hotel upon hotel, Catalonia offers flexible and therefore resilient facilities. It has all the advantages of being the closest part of Mediterranean Spain to France, Italy and northern Europe and, because it specialises in individual holidaymakers who seek out their apartment and villa, has been able to capitalise on their loyalty.

Protected from the changing whims and from the fine profit margins of the operators, Catalonia has succeeded in providing something for everyone. Within a few kilometres of traffic jams, during the July/August high season, can be found the ultra chic and quiet repose of s'Agaro, with its remarkably sedate Mediterranean millionaires' row, and the punky, topless, everything-goes-youth-culture venue of Playa de Aro.

Further up the Costa Brava, towards France, there are low-cost family holiday marinas for the yachting crowd, artist colonies in Cadaques and places like Figueras where the super cool arrive on motorbikes and covered in leather gear and make-up to pay homage to Salvador Dali and visit the surrealist museum he donated to his home town.

The Costa Brava, in its varied manifestations, is a trade mark that Catalonia knows is well established and internationally known, comparable only, in Spain, to Andalusia's Costa del Sol.

A second instant image associated with Catalonia is Barcelona—at one level the capital of Catalonia is an artistic treat, at another it is steamy fun and at yet another a serious commercial centre with a calendar choc a block with international fairs and trade exhibitions.

The challenge now facing Catalonia's tourism authorities is to develop the potential of the inland regions and the mountain resorts. This is far from being a daunting task since Catalonia, in the Spanish context is exceptionally well served by communications.

The inland regions, or the "comarques" as the districts are named in Catalan, offer an amazing variety of distinct folklore roots, culinary skills, architectural traditions and agricultural patterns and produce. The richness of inland Catalonia and its historical importance is well known to the discerning tourist and it offers a sharp contrast to the acquired habits of those who are experienced in "discovering" interior Spain.

The main contrast is that in Catalonia it is not a case of traversing endless baked plains, as in Castile, to arrive at a "lost" cathedral town, or of driving through mile upon mile of olive trees, as in Andalusia, to land, at last, at a hidden, whitewashed "pueblo."

In Catalonia the squat Romanesque church, the unspoilt market town, the grand mansion-come-castle lie close to each other. In addition, there is a welcome absence of potholes and an even more agreeable presence of first class restaurants.

Catalonia's mountains and winter sports areas undoubtedly offer enormous tourist potential. There are a total of 14 ski resorts along the Catalan section of the Pyrenees and one of them, Baqueira Beret, has already made its mark as a fashionable locality since Spain's royal family spend as much time there as they can during the winter sports season.

The Catalan slopes already attract weekend skiers from as far afield as Madrid. The challenge is to promote them increasingly for the European market outside the immediate Christmas holidays.

Working strongly in favour of Catalonia's bid to develop further the interior and the Pyrenees is the fact that both are able to build on an existing domestic tourism market. Even in the low season half a million cars leave the greater Barcelona area on Friday evenings and Saturday mornings to explore Catalonia.

Tom Burns

The beach at Playa de Aro on the Costa Brava

Wine in transformation

CATALONIA IS not the biggest wine region in Spain but it is the most varied—ranging from light reds in the north through fruity whites to full-bodied reds—and the most innovative. An old wine-growing area, it has undergone a transformation in recent years. Cultivation has decreased but new and better-quality wines have sprung up.

In contrast to the tradition of Tarragona wines, produced to be exported in bulk and blended, three-quarters of Catalan output now comes under controlled denominations of origin equivalent to the French system of appellations controlées.

Of the seven regions that have obtained this status, six produce almost exclusively for the home market. Catalonia drinks twice the 3m hectolitres it produces annually. Only 10 per cent of its output is exported and nearly all of that comes from the Penedes region west of Barcelona: still wines, centred on Vilafranca del Penedes, and champagne-type Cava wines, centred on San Sadurni de Noya.

Cava, made by the tricky process of inducing a second fermentation in the bottle, basically the same as used in Champagne, accounts for a quarter of the region's output and two-thirds of its sales outside Spain.

Penedes, which underwent a resurgence in the late 19th century, was replanted with white grapes after the phylloxera epidemic wiped out Europe's vineyards. Codorniu began making sparkling wine (in Champagne, where the basic grape is red, this would be classified as a blanc de blancs). White table wine followed. Other grapes have since been introduced, including reds such as Cabernet and Merlot.

Torres, based in Vilafranca, has done much of the running, always with an eye on the North American market and taking some cues from California wineries.

The present owner, Sr Miguel Torres, began innovating after the main cellars near the railway were bombed by mistake in the Civil War in 1939. In the closing stages of the war he went into bottling his own wines. He travelled in the U.S., from where an earlier Torres had returned to Catalonia.

He also imported wine stocks from France, enabling the firm to supply American customers whose sources of French wine were cut off in the 1939-45 war.

The U.S. remains the main export market, taking up to 40 per cent of output.

The company pioneered the use in the region of stainless-steel, temperature-controlled vats and has just brought in a harvesting machine to pick its tougher-skinned red grapes. This machine is to be the first in Spain. It now has 400 hectares of its own vines, and 100 more in Chile.

Making use of the varied terrain — which rises from just above sea level to over 700m. some of the highest vineyards in Europe — it sells a wide range of both whites (including an Alsace-type unique in Spain) and reds, its prize wine being the black-label Gran Coronas.

Sr Torres, a sprightly 76, is anxious that his business, run very much as a family affair, should not outgrow itself and should concentrate on improving quality, especially in view of EEC entry. Rather than a Spanish wine invasion of the northern EEC market, he believes that for snobbish reasons Spain will undergo a wave of French imports, and in order to make the best of it is planning to collaborate with a French negociant.

For other Catalan producers France, by far the nearest market, is a tough problem.

"I think selling to France will be difficult," says Sr Eduard Puig, president of the Catalan Wine Institute, blaming not only French chauvinism but also the commercial organisation of the French wine industry. Despite an advantageous price/quality ratio, this is the market that has proved the hardest for the Cava producers to penetrate.

Freixenet, which recently expanded its interests in the sector by taking over former holdings of the Rumasa industry, shares with Codorniu a near-monopoly of Cava exports. Again, both are family groups. Freixenet is also like Torres in having suffered a Civil War setback, when its founder, M Pedro Ferrer, disappeared.

Although the smaller of the two in production, Freixenet leads the export rankings. Last year it surpassed the Domecq sherry business as Spain's top wine exporter with a 40 per cent increase to $17.5m counting its subsidiaries. Its sales to the U.S. have multiplied in volume by 12 since 1979.

Of total Cava exports of 28m bottles last year, 16m went to the U.S. The EEC currently takes only about 10 per cent, with about 700,000 bottles sold in the UK last year and less than 14,000 in France.

Even so, Catalan wine-growers are doing much better in the EEC. According to Sr Puig, five or six years ago there were only four houses exporting to the Community. Now there are about 20.

Besides Penedes, the only Catalan wine-growing area of similar size is Tarragona, where the regional authorities are trying to steer producers towards modern tastes. Other denominations have limited markets. Emporda in the north east corner of the region produces mainly light reds and roses but also some unusual whites.

Priorat in the south, famed for a dark, heavy product, has awkward hilly terrain, low yields and a vine area that has been greatly reduced. Alella, an enclave in the urban sprawl north of Barcelona, producing mostly white wine, has shrunk to 380 hectares but has an active co-operative which was a pioneer in doing its own bottling.

The remaining two, Conca de Barbara (mainly whites and roses) and Terra Alta are of little note. There are other wines such as Raimat, grown in a small area of Lerida Province. It has not obtained a denomination but Sr Puig believes it makes the best red wine in the region.

David White

Farming deficit

IN THE marvellous covered market off Barcelona's Rambla de Sant Josep, the first French nectarines from Roussillon appeared this summer. As farmers on the other side of the Pyrenees fretfully await the entry of Spain into the EEC from January next year, people on the Spanish side are beginning to worry about the entry of the EEC into Spain.

For Sr Joseph Miro, the Catalan government's man in charge of farming, fears in the EEC of a flood of cheap Spanish produce are "extraordinarily exaggerated.

"It is Spanish agriculture that should fear the competition," he says. Even in the so-called Mediterranean products, he believes Spain will be handicapped by much weaker commercial organisation.

Mediterranean products—the triad of cereals, wine and olives—were the traditional base of farming in Catalonia. But they have already been progressively replaced by more intensive agriculture, such as fruit and flowers, the only way the smallholdings that characterise the region have been able to make themselves viable.

Catalonia now has more than a quarter of Spain's fruit trees, and a similar proportion of its pigs, the main animal sector ahead of poultry. The wine business has moved away from bulk production. In terms of technology and marketing Catalonia is in advance of Spain, and it is on these that the region's authorities are placing their hopes.

Sr Miro is blunt about where the priorities lie: first to defend the home market and, only in the second place, to develop exports. A big consumer, Catalonia has a deficit in its farm trade, and currently exports only about 10 per cent of its farm products. The share that the present EEC (principally France) takes of these exports has decreased sharply in the last 10 years.

Under the terms of entry, it will be difficult for Spain to increase its sales much in the first years of membership, Sr Miro argues. With the EEC surplus problem threatening to get worse, and with farm output in Spain growing faster than consumption, the only option is to go for quality—better and new products—rather than quantity. "If not, agriculture is condemned in the medium term."

In the main farming province of Lerida/Lleida, old plantations of apple, pear and peach trees are due to be pulled up and replaced by better-adapted varieties that are less costly to look after.

In 1950 more than one in five people in Catalonia worked in farming, but that level is now down to 6 per cent, below the EEC average, and agriculture and fishing together account for less than 3 per cent of the Catalan economy.

On the other hand, Catalonia has become an important base for food processing—which accounts for 11 per cent of industrial output and about 5 per cent of the total regional product—to a large extent under the impetus of foreign capital.

After chemicals and engineering, the food business has become a prime area for foreign investment in Catalonia, with companies such as Nestlé, number one in the sector in Spain, and Danone, part-controlled by the French BSN-Gervais Danone group. These companies have played a decisive role in introducing new methods and developing new markets.

David White

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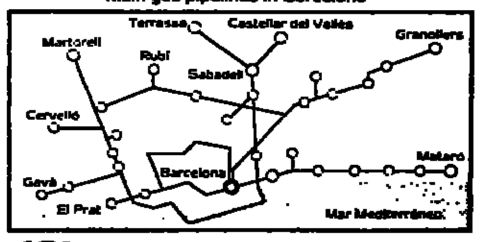

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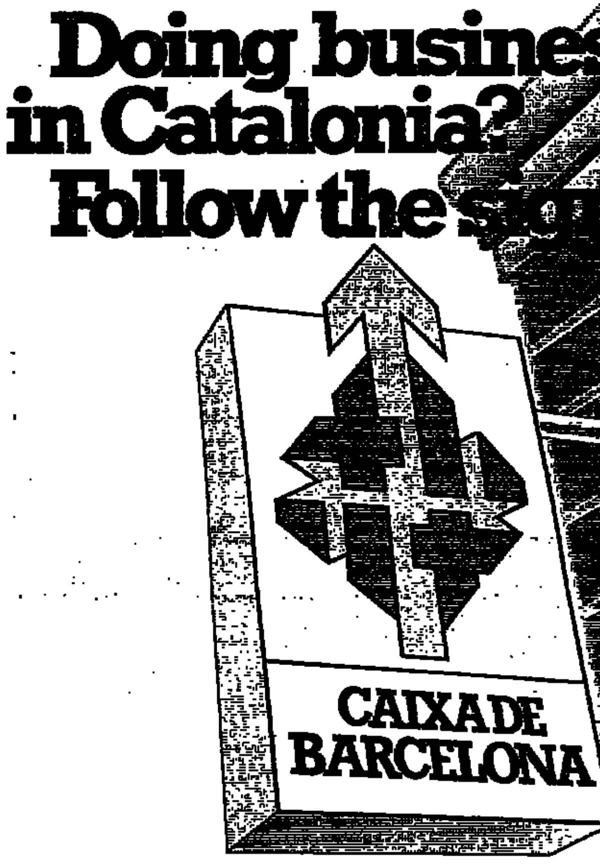

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Attitudes to traditions and the city's avant garde sometimes turn to farce, as **Tom Burns** reports

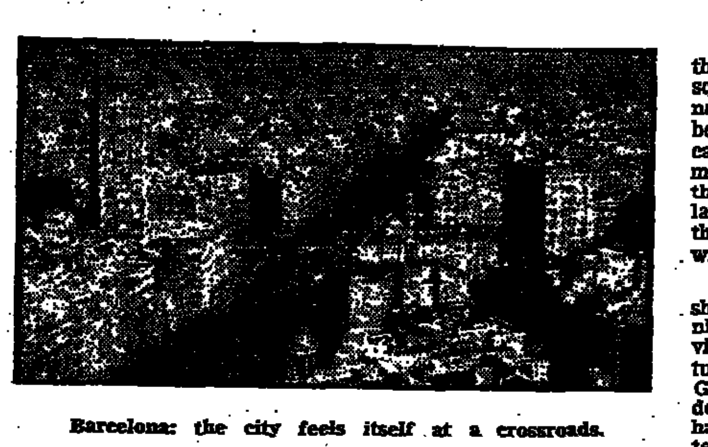
Barcelona: proud and progressive

EVERY BROCHURE about Barcelona sooner or later makes the point that the city is a synthesis of "conservative tradition" on the one hand and the "avante garde"—or some similar term—on the other. What, after all, can be more conservative or traditionalist than to be the guardian and platform of a minority language and culture such as Catalan and what can be more avante garde than to be the spiritual capital of Modernism?

The proud assertions of both preserving a past and sponsoring a future became all muddled this year when Barcelona City Hall, which is run by the Socialists, infuriated the Catalan government, the Generalitat, which is made up of conservative nationalists, with its programme to celebrate the fiestas of La Merce, Our Lady of Mercedes, who is the virgin patroness of Barcelona.

The programme itself was the first point of contention. The booklet detailing the variety of events—concerts, theatre, exhibitions, bullfights, sporting competitions and the rest—had on its back cover a lino-cut representation, commissioned by a noted local artist, of naked figures dancing the night away under the shadow of the monument to Christopher Columbus which stands on the quayside in the port.

There was a further row about one of the events in particular, an evening devoted to music hall which involved song, dance and striptease starring the best of Barcelona's highly-popular variety theatres. The show was to be held in the Plaça de Sant Jaume, the main square of the city's Gothic quarter which has the Generalitat, or Catalan government building, taking up one side and the city hall, immediately facing it, taking up another.



Barcelona: the city feels itself at a crossroads.

The Generalitat was outraged that the famed, virtually sacred square, because of all its nationalistic associations, should be turned over to such vulgar carryings on, and when the music hall evening started all the lights were off in the Catalan government building and the shutters drawn at every window.

It so happened that as the show drew to its end, well after nightfall, an impertinent individual operating the spotlights turned his beams on to the Generalitat building. To the delight of the big crowd that had turned up for the free entertainment organised by the city hall, the spotlights revealed several Catalan government employees who, under cover of darkness, had opened the shutters and crept out on to the balconies to watch the show.

In reality the row was a farce. The Convergencia nationalists of Sr Jordi Pujol, president of the Generalitat, probably would also have had a music hall evening had they had the control of the City Hall because, after all, it was a highly popular event and good vote catcher. The outraged indignation totally backfired on the Nationalists.

In any case, music hall, striptease and all, is hardly being daring, at least not in Barcelona. The variety halls of the city's "Paralelo" Street, which are stevedore and working class area par excellence, and the Molino Theatre, which is in the heart of the city's red light district, the Barrio Chino, are revered Barcelona institutions.

Barcelona is a city which oozes fleshiness and it is hypocritical to claim the contrary.

Fortunately, there were other, less controversial events to mark the city's annual September fiestas, providing the synthesis of old and new. Modern jazz quartets played into the night to rapt audiences in the intimate little plazas that surround Barcelona's cathedral, while elsewhere townspeople danced the Sardana, the highly sedate and quasi-religious national dance of Catalonia.

On the steps of the magnificent cathedral, on one night of the fiestas, the Catalan folk singer Pi de la Serra gave a concert which exemplified a synthesis all of his own. Years back he was a leading exponent of the Nova Canco, the highly nationalistic and politically motivated Catalan folksinging movement and a singular bard of the anti-Franco movement.

Nowadays he still sings solely in Catalan, refusing tempting record company offers to widen his market by performing in Castilian Spanish. But his themes have moved on. He is unashamedly commercial, the anguish is all gone and he is good, safe showbusiness.

The safest observation to make is that "conservative traditions" and "avante garde" have little meaning for all the good promotional intentions of the city's brochures, when applied to Barcelona. The city is quite obviously all things at all times.

It can be provincial and bourgeois and bohemian and international at the same time. The city hall official who explained that the prostitutes and the transvestites at the port end of Las Ramblas and the U.S. Navy shore patrols walking stiffly about are "all part of the decor; it is what we grew up with and we are used to it all" was being totally sincere.

And yet there is the niggling doubt that Barcelona is not completely at home and at peace with itself. There is a feeling that the city, its officials just as much as its troubadors and artists, feels itself at a crossroads. The age-old rivalry with Madrid has reared its head again but this time it has different nuances.

Barcelona could cope with the fact that Madrid was the capital as long as it remained a boring old administrative centre. Now, however, Madrid has taken on a fun-life and creativity of its own, and its youth culture has been written up in U.S. and French news magazines.

Naturally this hit Barcelona below the belt, because the pride of Barcelona was that it, and only it, represented free expression in a Spain criss-crossed by barracks, convents and bureaucratic offices. This is clearly no longer true and in an age of international airports, moreover, being the geographical threshold of Europe has only a relative importance.

There are some in Barcelona's artistic community who blame the relentless nationalism of the Generalitat. The argument runs that good and bad creativity take a back seat to the overriding concern that whatever is produced should be Catalan-oriented.

Barcelona intellectuals squirm with embarrassment when they are asked about a recent theatre reading of the work of the Chilean poet Pablo Neruda in which Neruda's resounding Castilian Spanish was translated and rendered in Catalan.

There is too an element of defensiveness about the City Hall's current slogan. Bunting during the fiestas and car stickers proclaimed "Barcelona mes que mai," which is Catalan for: Barcelona now more than ever. It is a reflex action to the fear that Madrid is treading on Barcelona's hallowed and envied patch.

In fact, Barcelona has nothing to worry about. Whatever the claims now made for Madrid, a visit to the city from Madrid is still very much a breath of fresh air. It is hard to imagine similar music hall evenings being held anywhere else in Europe.

Tom Burns

Confusions over use of Catalan

A BUS RIDE in Barcelona quickly sums up Catalonia's language problem. Information and instructions for passengers are principally, and sometimes solely, in Catalan. But the tickets are in Spanish, and the odds are that the driver can communicate only in that language.

This kind of confusion is inevitable as the Catalan authorities strive to put the region's language firmly back on its feet—the symbol both of the distinctiveness of Catalonia and of the restoration of rights long flouted by centralised governments.

A concerted bid is being made through the school system, through publishing and through the local television channel, TV3, which has been broadcasting since the start of last year, to secure the future of Catalan as a functional language on a par with Castilian Spanish.

To most Catalans there is no question but that Catalan is their first language. However, since the massive inflow of labour from southern Spain during the industrial growth period of the 1960s, people born in Catalonia of Catalan parents are in a minority of two to three in the regional population.

It is a testimony to Catalan good sense that an all-out language war has been avoided. Nonetheless, with some non-Catalan speakers resisting at one end and some Catalan nationalists pulling hard at the other, linguistic policy has created a certain amount of tension.

Yellow pillar-boxes in Barcelona were painted over blue a few weeks ago with notices calling for the wording to be changed to Catalan.

Linguistic zealousness can sometimes be exasperating for the foreign visitor caught unawares with only a Spanish phrase-book. The holidaymaker who mails his postcard at one of the prettier Costa Brava resorts will find the collection time marked up as "2/4 9"—which is the way Catalans say 8.30. A nearby mountain road has big warning signs saying "overtaking dangerous" in Catalan and Spanish, or would have if an enthusiast had not diligently blacked out the Spanish wording.

Catalan has it easier than Basque on two scores: first because it is a neo-Latin language somewhere between Spanish, Italian and Occitan (southern French) and can be understood without too much difficulty. Second, because it has a secure place among the intelligentsia and bourgeoisie, with a substantial literature behind it.

Eclipsed

Catalan, variants of which are spoken in the Valencia region and the Balearic Islands, was one of the languages current in the Vatican in the Middle Ages, and the court language of the Kingdom of Aragon until union with Castile eclipsed it in the late 1400s. Revived by the romantics, it was systematically persecuted by the two dictatorships that straddled the brief 1930s interlude of the second republic, when it enjoyed official status.

The Franco Regime barred Catalan from being taught or used in civil registers, and exhorted everyone to speak Spanish. Catalan Christian names and Catalan spelling of family names were out. The civil Governor of Barcelona in 1949 forbade civil servants in that province from speaking "any language but that of the state," either inside or outside public buildings, on pain of dismissal. Pressure was put on priests to stop teaching Catechism in Catalan.

In practice the rules were eased, and private schools set up for the elite to have their children educated in the "llengua mare" or mother-tongue. But many parents of that generation, while speaking Catalan to each other, thought it better to bring up their offspring strictly in Spanish.

Many who speak Catalan naturally are unable to write it correctly. For instance, the director of a Catalan bank, himself of solid Catalan stock, has to write his letters in Spanish and have them translated into Catalan.

Today, under a controversial 1983 law, primary and secondary schools in Catalonia (which come under the authority of the autonomous government) all teach Catalan. About 15 per cent do their teaching completely in Catalan with Castilian as a separate subject. The rest do it the other way round, although some leave the choice to the teacher.

The aim is that every pupil should be able to use both languages normally by the time he leaves school.

With the success of the TV3 channel and an active programme of Catalan classes for non-speakers, there are signs that the language is gaining ground. A census four years ago found that almost 20 per cent could not understand Catalan, but more recent surveys found a reduction in this figure to barely 4 per cent, with 74 per cent able to speak the language and 22 per cent able to understand but not speak it.

This development is favoured by factors other than official promotion. For people recently installed in Catalonia, knowledge of Catalan is a means to social integration. Also, as long as memories of Francoist repression are keen, defenders of Castilian as sole language are put at a moral disadvantage.

The main friction comes less from immigrant workers than from non-Catalan civil servants, and especially teachers who feel themselves discriminated against. But a court ruling this summer upheld the Generalitat's schooling law against charges that it was denying these teachers equal opportunities.

Some parents also complain. For instance, a taxi-driver from the Canary Islands, while all in favour of his son's learning Catalan, was bitter about it being a compulsory-pass subject and felt the child was handicapped in comparison with schoolmates from Catalan families. He thought it would be better to force children to learn English. "Catalan," he said, "is no use except here . . . and in Andorra."

Surveys have shown that immigrants feel more prejudice against them for not knowing Catalan than for their origin.

The problem is made worse by a regional disequilibrium within Catalonia, where the immigrant population is overwhelmingly concentrated in the industrial belt around Barcelona. The 1981 census showed that while in some rural boroughs the understanding of Catalan was 100 per cent (some country people still have poor command of Spanish), in the outlying towns of Barcelona it went down, in one case to just 50 per cent.

The longer families have been in Catalonia, the greater the linguistic assimilation. The immigration wave—for the time being, at least—is over. After soaring between 1950 and 1975 arrivals from other areas have slowed right down with the industrial crisis.

Long-term plans for a harmoniously bilingual community depend in part on how this trend evolves.

David White

Publishers still taking the lead

A TRADITIONAL custom in Barcelona is to commemorate the feast day of St George, the Patron saint of Catalonia, with a gift of a book and a red rose to every friend and relative.

On the feast day flower stalls and book stalls appear along the pavements to make sure that people observe the tradition. It is such habits and selling techniques that put the Catalans in the lead in Spanish publishing.

The stock observation that Barcelona's relationship with Madrid is similar to that between Milan and Rome is certainly true in the book business. The Catalan capital has the big publishing houses, the literary agents, the valuable book prizes and many of the authors.

On titles published in 1984 Barcelona appears to have only a slight edge over Madrid. The Catalan capital's publishers accounted for 40 per cent of the total titles published in Spain against the 37 per cent slice of Madrid.

But the statistics are deceptive since Madrid is the centre of the educational books business. "Take away textbooks and we are virtually alone in Spain," says one Barcelona publisher.

The explanation for the Barcelona predominance lies as much in the cultural lead that Catalonia holds over the rest of Spain as in the manner in which the Catalan commercial pattern of small, family businesses is ideally suited to the publishing world.

Although the typical Catalan townsman is no great industrialist he is a keen entrepreneur, communicator and salesman.

Culture and creativity has always been a source of Barcelona and Catalan pride. The middle class has long enjoyed patronising the arts. The same class that funded the city's opera house and concert hall and enthusiastically supported the architectural eccentricities of Antoni Gaudi provided the cultural environment for a rising publishing industry.

The present scope of the Spanish publishing industry can be seen every year in Madrid (when the Barcelona book business moves to the capital for a week) in a fair known as Liber which this year staged its third "edition."

Since the fair increasingly attracts Latin American business it was, this year, able to exhibit the work of 1,000 firms related to the publishing world and to offer 8,000 new titles.

The real strength of the Spanish book trade is unquestionably its Latin American dimension for it is the strength of the Spanish language that allows Spain to be the fifth world exporter of books. Income from the export of Spanish books totalled more than Pts 40bn in 1984, a year in which some 30,000 titles were published and some 300m books were printed.

Yet the Latin American relationship is as much the weakness as the strength of the Spanish sector. The Barcelona book trade is still counting the cost of its Latin American operations. At the time of *El Crac*, as Spanish publishers refer to the Latin American debt crisis, South and Central American absorbed up to 40 per cent of Spain's book output.

According to the Catalan Book Publishers Association the 1983 exports of books to Argentina, measured by kilos, fell 17 per cent against those of 1982, by 43 per cent in respect of Venezuela and by 67 per cent in respect of Mexico. At the end of 1983 the association estimated that outstanding Latin American debts to Catalan publishers stood at Pts 15bn.

Although there had traditionally been a close relationship between the Spanish and Latin American book industries (a relationship enriched by the exile to Latin America after the Civil War of the Spanish intelligentsia) in the 1970s there was a notable export boom stimulated by the government.

Spanish publishers were able to obtain soft export credits covering up to 70 per cent of the previous year's exports to Latin America as well as significant tax rebates.

Sr Josep Maria Boixareu, deputy chairman of the Catalan Publishers' Association, argues that the government aid was necessary, since even in normal times payments from Latin American were often delayed by at least a year. The reverse side of the coin was that some publishers overreached themselves.

Surviving *El Crac* has been a salutary experience, Sr Boixareu claims in defence of the Catalan publishers that none actually went under.

Curiously, some of the association's members found that the dip in the wider Spanish language market could be compensated by publishing in the minority Catalan language. Some 700 Catalan book titles were published in 1976 and last year the figure rose to 3,000.

Production of books in the total Spanish publishing sector is running 20 per cent down on what had been expected, although, according to Sr Fernando Lara, the chief executive of Planeta, the giant of the Spanish publishing world, "we are still putting out more titles than we should."

Sr Lara argues that a serious handicap is that many booksellers lack enough shelf space for the available output.

The Latin American crisis was swiftly followed in 1984 by the sharp increase in the price of paper. Paper costs were estimated by the Catalan publishers to have risen by an average 40 per cent.

Early this year the Catalan publishers Association was talking in terms of a necessary 23 per cent rise in the cover price of books, but it was kept down to 10 per cent as the arguments for greater austerity and finer profit margins won the day.

To a greater extent the ability of the Spanish publishing business, and in particular of the Catalan side of it, which is concerned wholly with conventional commercial publishing, to solve its problems and set its house in order underlines the sector's strong potential.

Statistics showing an astonishingly small reading public in Spain (54 per cent, in an extensive poll carried out by the newspaper El Pais, said they never read a book) may be depressing as an indicator of low cultural standards but they provide a strong incentive for publishers.

The home market is now starting to grow because, as Sr Rafael Borras, Planeta's literary editor, puts it: "At last Spanish children are being encouraged to read books."

Planeta, which is owned and managed by the Barcelona-based Lara family, has certainly shown the way ahead for the Catalan, and by extension for the Spanish publishing world. Sales by Planeta last year totalled Pta 15.5bn, an 18 per cent increase on 1983, and generated a cash flow of Pta 1.5bn.

Despite the Latin American crisis, Ptas 8bn of the company's sales came from its subsidiaries in Argentina, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela.

Every October the company hosts a glittering literary banquet to award the Planeta Fiction Prize. Entries are unpublished manuscripts on which the company keeps a first refusal and the winner is awarded a prize of Ptas 12m, which is in effect an advance on royalties.

The Planeta prize novel which bursts on to the market with full publicity in time for the pre-Christmas buying spree is assured of sales in excess of 200,000.

Tom Burns

GENERALITAT DE CATALUNYA

PEAT MARWICK

Investment and Business in Catalonia Conference

The Catalonian Government is hosting a conference on "Investment and Business in Catalonia", an area rich in potential for the British investor, now that Spain has entered the EEC. The conference, presented jointly with Peat Marwick, will be addressed by the Spanish Ambassador and the Catalonian Ministers of Trade and Industry.

Catalonia, with its capital at Barcelona, is probably the most affluent part of Spain, has a modern economy and provides an excellent base for operating in Southern Europe.

The conference aims to promote co-operation between British and Catalonian companies and the transfer of technology, as well as investment.

Background information will be provided on the opportunities available, the legal and practical aspects of doing business in Spain, and the Government's view on foreign investment.

A number of Catalonian businessmen will be attending the conference, and Peat Marwick will be present, to help you with their expert knowledge of this area.

The date is Thursday November 21st, the venue The Mayfair Hotel, London W1. There is no charge but please apply for an invitation, using the coupon below, as soon as possible as places are limited.

The conference will be followed by a reception and a private viewing of the "Homage to Barcelona" Exhibition at the Hayward Gallery.

To: Mrs. P. D. Austin, Seminar Co-ordinator, Peat Marwick Mitchell & Co., 1 Puddle Dock, Blackfriars, London EC4V 3PD. Tel: 01-236 8000.

Please send me/us an invitation to the conference "Investment and Business in Catalonia".

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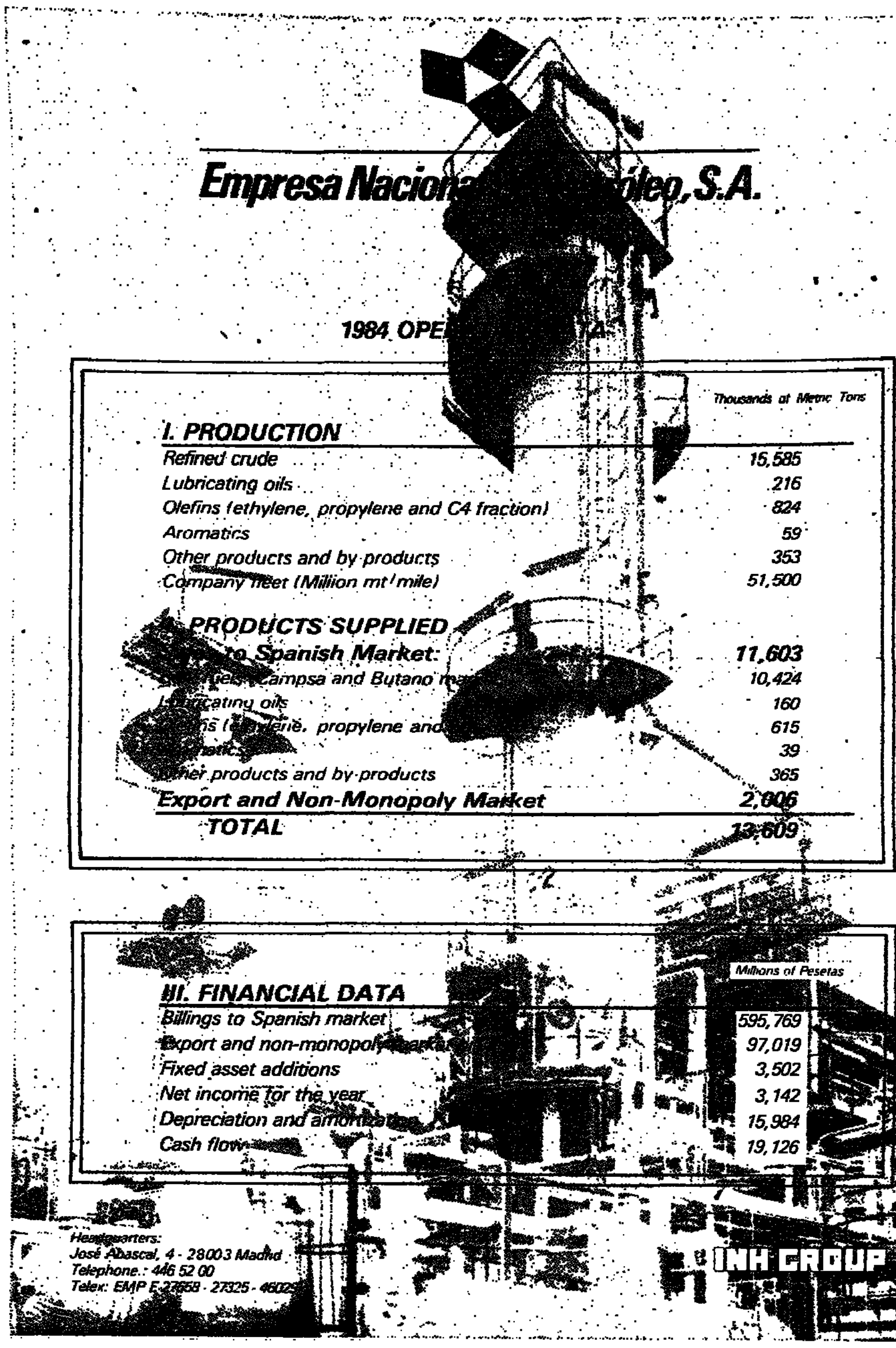

	Thousands of Metric Tons
I. PRODUCTION	
Refined crude	15,585
Lubricating oils	216
Olefins (ethylene, propylene and C4 fraction)	824
Aromatics	59
Other products and by-products	353
Company fleet (Million mt/mile)	51,500
PRODUCTS SUPPLIED	
To Spanish Market:	11,603
...Campsa and Butano	10,424
...cating oils	160
...ns (...ene, propylene and...	615
...	39
...her products and by-products	365
Export and Non-Monopoly Market	2,006
TOTAL	13,609

	Millions of Pesetas
III. FINANCIAL DATA	
Billings to Spanish market	595,769
Export and non-monopo...	97,019
Fixed asset additions	3,502
Net income for the year	3,142
Depreciation and amortiza...	15,984
Cash flow	19,126

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CATALONIA 6

Rojo (centre) and Marcos, in dark shirts, are surrounded by Sparta players during a European Cup match

Barcelona: power and the glory

NOWHERE ELSE in the world can you find a bank cash card bearing the name and colours of a soccer club. Nowhere else would an easy-read thriller co-authored by an English football manager find its way on to the bookshelves in the same series as Stendhal and Gorki, as has happened with the Catalan translation of Hazel And The Three-Card Trick, a by-product of one Terry Venables, currently of Spanish champions Futbol Club Barcelona.

FC Barcelona, Barca to its supporters throughout and beyond Catelonia, is an unique phenomenon both in Spain and in the world of football. Barcelona, a city of 3m, provides a livelihood for three daily sports tabloids, all devoted largely to its exploits. The club has two soccer studiums, its own division in a local bank, and 110,000 paid-up members—more than two-thirds as many as Spain's ruling Socialist Party.

The club regularly has gates two or three times as big as top English first division ties. A rarity among football teams, it does not stoop to carrying advertising on its shirts—except, since last month, a small tag supporting Barcelona's bid for the 1992 Olympics.

Even though the league title it won last season under its new manager from Queen's Park Rangers was its first for 11 years, the club has never lost support.

Barça is Catalonia's number one institution. Normally rational, commonsense Catalans undergo a metamorphosis when the blue-and-red shirts appear on their television screens. Whole families, even those who do not like football, are dedicated followers.

The club established a special place for itself during the Franco regime, as the only channel through which Catalan feelings could find public expression. The rival Barcelona first division club, Espanol, has never been able to shake off a Right-wing, anti-Catalanist aura. The few Barcelona intellectuals who admit to being Espanol fans, are treated like black sheep.

But Barça's pull is if anything greater now than it was during the dictatorship. The club would have even more paying members, only it does not have the seats for them.

Support

There are in the region of 400 fan clubs in Spain and abroad—"a bit like a marketing network," says the club treasurer Sr Carles Tusquets—including one in Moscow. By turning this support to advantage, Barcelona has managed to escape the financial quagmire in which the rest of Spanish football flounders along from season to season.

When the present club chairman, Sr Josep Lluis Nunez, took over seven years ago, the club's first external audit revealed it to be in a state of technical bankruptcy—with a negative net worth of Pta 13m ($75,000), players and employees owed three months' pay and short-term loans outstanding at the bank.

Sr Nunez, a businessman in the construction sector (although he has "Catalanised" his name, he was actually born in Bilbao), came up with the simple solution of asking members to contribute a year's subscription, to be deducted over the following five years.

The response, says Sr Tusquets, was 200 per cent. Annual subs — a flat rate of Pta 6,500 plus between Pta 10,000 and Pta 25,000 for season-ticket rights to all the club's soccer, basketball and other fixtures — are also paid in advance. "Before each season 70 per cent of the budget is already covered."

In this way the club has not only paid off its debts but built a new "mini-stadium" with all-seat capacity for 16,000, new offices, a residence for young players and a museum displaying its past glories — 10 league championships, 20 King's Cup titles, two cup-winners' cup and Three Fairs' Cup/UEFA titles.

For the 1982 World Cup it expanded the capacity of its Camp Nou ground from 100,000 to 120,000 at zero cost to the club—the money came from the subscriptions of the new members it was able to take on. It is now planning to expand again to 130,000, increasing the seating in a bid to contain its more troublesome fans, the "boixos nois" or "crazy kids."

As a non-profit-making body, the club steers its surpluses into projects such as catering for 2,000 young athletes. Its bank scheme, which provides the club with another Pta 50m a year, has been so successful that Sr Nunez is said to be toying with the idea of an insurance company for members.

The bank, unofficially known as "Banca del Barça," is actually a division of Banca mas Sarda, an old and once rather snooty family institution that is now part of Banco de Bilbao.

With cheque books printed in club colours, offering exclusive services for the club and its members, and using Catalan for all its communications, the division has built up a clientele of 14,000 and deposits of Pta 1.5bn since it was launched in January last year, according to Sr Pedro Fontana, Mas Sarda's managing director.

The new cash card is designed so that it can be used one day to gain access to the stadium through automatic gates.

It was Mas Sarda that had to handle the complex transfer deal last year of the Argentinian Diego Maradona to Naples—on which Barça made a capital gain of $2m—and the purchase of Tottenham Hotspur's Steve Archibald.

Crowds

Sr Fontana, though himself a life-long Barça devotee, never ceases to be astounded by the power the club exerts.

Barça is bigger than politics, with an ability to mobilise crowds that any party would envy. Both Convergencia I Unio, the dominant Catalan party and the Socialists who hold Barcelona town hall have done their best to get on to the club's board. But, says Sr Tusquets, "the day politicians get in, Barça will stop being what it is."

This kind of prominence, however, does not always make for a happy club. Directors and players cannot take a step without it echoing in every bar. Foreign stars, heroes only when Barcelona is winning, come under tremendous pressure, and the slightest friction flares into a public issue—often to the detriment of players' performance on the field.

At the height of the latest political row between Barcelona and Madrid, another quarrel—between Sr Nunez and Barça's German midfield ace Bernd Schuster—stole the show even on the front page of the staid La Vanguardia. At a Press conference, a sports reporter put the rhetorical question to Terry Venables:

"Do you see now why Barça wins a title only once every 10 years?"

David White

Courtaulds Fibres s.a. BARCELONA

Courtaulds P.L.C. one of the most important textile groups in the world and whose origins go back to Victorian times, acquired all Cyanenka SA's shares at the beginning of the year, therefore becoming the second-largest world producer of acrylic fibre and the foremost in Europe.

Courtaulds Fibres s.a. formerly Cyanenka SA, also uses the Courtelle brand which can be found throughout the textile world both nationally and internationally.

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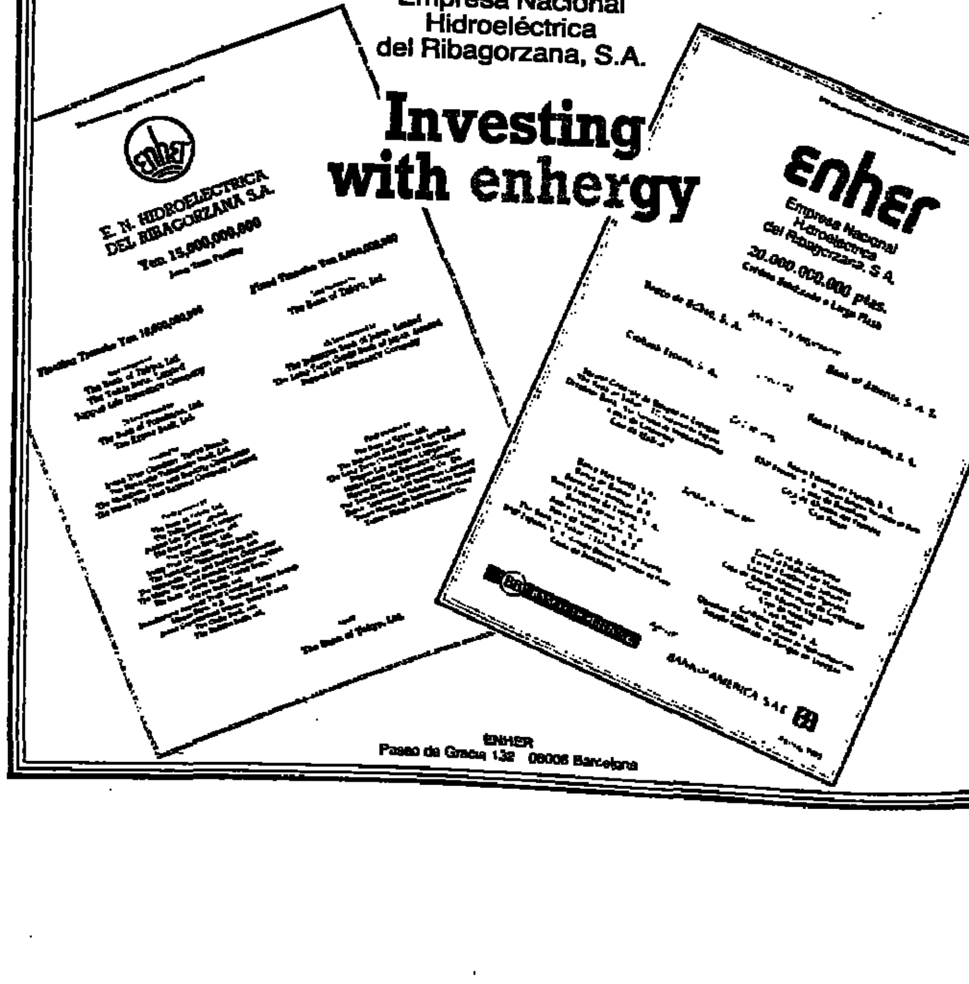


ENHER
Paseo de Gracia 132 08008 Barcelona

Swire Pacific Limited

Interim Dividends for 1985
Scrip Dividends

The average last dealt prices of the Company's shares on the stock exchanges in Hong Kong on which the Company's shares are traded, for the five trading days up to and including 11th October, 1985 were:

	HK$
A shares	24.770
B shares	3.875

In a letter to shareholders from the Chairman dated 9th September 1985, it was announced that the directors had declared interim dividends on 30th August, 1985 in respect of the year ending 31st December, 1985 of 44.0¢ per A share and 8.8¢ per B share and that the directors had resolved that, as to 43.0¢ per A share and 8.6¢ per B share, these dividends should take the form of scrip dividends to be satisfied by the issue of additional A and additional B shares respectively, but that shareholders should be able to elect to receive these dividends in cash in respect of all or part of their shareholdings. To ensure that the shares of the Company continue to be authorised investments for the purposes of the Trustee Ordinance (Cap. 29, Laws of Hong Kong), the balance of the dividends of 1.0¢ per A share and 0.2¢ per B share will be paid in cash. It was further announced that entitlements to fractional shares would be disregarded and the benefit thereof would accrue to the Company.

Applying the average last dealt prices noted above, the number of new shares which shareholders will receive in respect of their existing shares for which elections to receive cash are not deposited with the Registrars in Hong Kong or with the Registrars' Agents in the United Kingdom by 18th October, 1985 will be calculated as follows:

For A shares:

$$\text{Number of new A shares to be received} = \text{Number of existing A shares} \times \frac{0.440}{24.770}$$

For B shares:

$$\text{Number of new B shares to be received} = \text{Number of existing B shares} \times \frac{0.088}{3.875}$$

and will be rounded down to the nearest whole number of new shares, fractional entitlements being disregarded.

Certificates for the new A and B shares in respect of the scrip dividends, which will rank pari passu with the existing issued shares of the Company, together with the dividend warrants in connection with the cash dividends of 1.0¢ per A share and 0.2¢ per B share, will be despatched to shareholders on 1st November, 1985.

By Order of the Board
JOHN SWIRE & SONS (H.K.) LIMITED
Secretaries

Hong Kong,
14th October 1985

Swire Pacific Limited
The Swire Group
Swire House, Hong Kong.

UK COMPANIES

VW Thermax falls into red

VW Thermax, USM quoted toughened glass maker, fell sharply into the red in the year to June 30 1985. At the same timeas reporting a pre-tax loss of £20,000, against a £2.01m profit previously, the company announced the sale of its wholly-owned engineering subsidiary, VW Company for £350,000 cash.

VW Company incurred a loss before tax of £1.87m (£369,000 profit) in the year. The disposal — which is in line with the group's policy of selling off its engineering interests—will, however, result in an extraordinary charge of £1.5m which has bee provided for in the group's 1984-85 accounts. The purchaser is Newship, a private UK registered company.

Referring to VW Company, the directors say that following an accountants' investigation, it was discovered that the valuation of stocks and work in progress in previous years' accounts had been materially overstated. It is estimated that the cumulative overvaluation at June 30 1984 was in excess of £0.5m.

They say the correction of this overstatement has been completely taken up in arriving at the pre-tax loss for 1984-85. Further exceptional provisions in respect of obsolete stock, amounting to £0.28m, have been made in arriving at VW Company's operating loss for that year.

Net assets of VW Company at June 30 1985 are estimated to be £1.68m, including an amount due from VW Thermax of £0.52m which will be repaid upon completion of the sale. Borrowings at that date, amounting to some £1.40m, are subject to guarantees by VW Thermax. A condition of the sale is the purchaser, Newship, procuring the release of the VW Thermax guarantees.

NO 16—71/8

It is also intended that tax losses of about £700,000 will be surrendered to Thermax (a wholly owned subsidiary of VW Thermax) for nil consideration.

The directors say that it is likely that the group's accounts will be qualified by the joint auditors in respect of the significant overstatement of stock and work in progress as at June 1984.

Following the omission of the interim dividend, the final payment is cut to 1p net and this compares with a previous total of 5.25p. Stated earnings per 25p share declined from 13.1p to 0.2p.

Turnover of the group's continuing activities improved from £8.22m to £6.37m in 1984-85. It is currently ahead of the same period last year and the directors believe that, following the disposal of the engineering interest, the group can look forward to a satisfactory year.

At the end of July, the company announced the sale of another engineering offshoot, Elphinport. This former subsidiary's pre-tax profit for the period under review was £48,000.

Aberdeen Steak ahead

AN INCREASE in the number of restaurants open for business and higher levels of occupancy contributed to Aberdeen Steak Houses Group more than doubling its pre-tax profits from £120,000 to £252,000 in the 25 weeks to June 30 1985. Turnover increased by some 40 per cent from £2.89m to £4.05m.

While the directors do not expect that the increase in profits seen in the first half will be reflected in the seasonally more important second half, they view the likely outcome for the year with confidence.

The company has received a small number of claims from the Central London Community Law Centre, mainly on behalf of former employees, all of which the company denies and will contest.

James Crean 21% higher

James Crean, the Dublin-based industrial holding company with interests in the UK, reports a 21 per cent increase from I£1.31m to I£1.6m (£1.3m) in pre-tax profits for the half-year to June 30 1985.

The directors say the results reflect a continuing improvement in the trading and financial performance of the company, which they consider to be satisfactory.

The interim dividend is raised from 4.5p to 4.85p on the enlarged rights capital—last year a total of 9.5p net was paid from pre-tax profits of £3.62m. Stated earnings per 25p share rose from 7.23p to 8.36p.

Sales in the opening half improved from £37.15m to £42.13m.

The group's trading performance since June 30 has continued to be satisfactory, say the directors.

IN BRIEF

C. & W. WALKER HOLDINGS, engineering contractor and equipment maker, has made a pre-tax profit of £92,000 in the half year to August 3 1985, compared with a £15,000 loss in the 27 weeks to August 4 1984. Turnover rose from £3.36m to £3.84m, generating an operating profit of £182,000 (£76,000). Earnings per 15p share are shown at 1.02p based on shares increased by the December rights issue, against losses of 0.37p. There was again no tax.

BRISTOL STADIUM, which owns Eastville Stadium, home of Bristol Rovers, the third division football club, and which promotes greyhound racing, reduced pre-tax profits to £85,693 in the year to December 31 1984 against £143,990 last time on turnover up from £1.24m to £1.42m. Tax took £30,570 (£96,699). The single final dividend is raised 0.2p to 1.2p a 5p share.

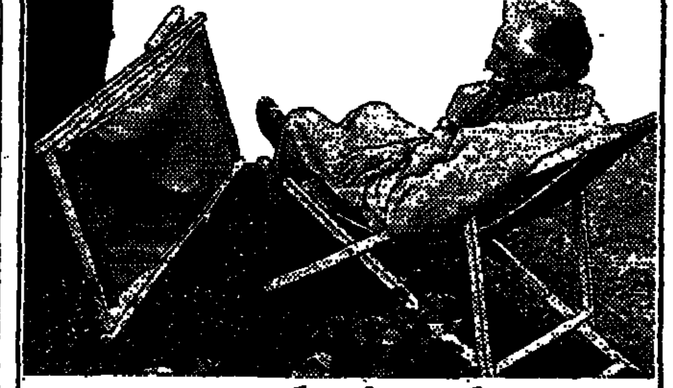
METROPOLITAN LIFE INSURANCE has completed the acquisition of Albany Life Assurance Company.

FT Share Information

The following securities have been added to the Share Information Service:

Continental Illinois Corporation (Section: Americans), Greenwich Resources (Mines-Miscellaneous), Jacob (W & R) (Food, Groceries), Trilion (Leisure).

Could this be YOU in a few years' time?



-remembering when deck chairs were for two?

Through a lifetime of professional service to others, he had planned and saved for a retirement they'd both enjoy in modest, dignified comfort. Instead, he saw inflation reduce his pension to a pittance and felt the icy hand of bereavement tear his heart out.

The DGAA is unique among charities in speeding practical help and friendship to people like him. With swift financial aid, the DGAA can help to keep them in the comfort of *their own homes*, close to their friends. And later, should illness or infirmity dictate, the DGAA offers a necessary service of loving, professional care in thirteen Residential and Nursing Homes.

We depend largely on donations, covenants and legacies from caring, sharing people like you. Please help - *while you are able.*

THE DISTRESSED GENTLEFOLK'S AID ASSOCIATION

Founded 1897. Patron H.M. Queen Elizabeth, the Queen Mother

Dept 7, Vicarage Gate House, Vicarage Gate, London W8 4AQ. Tel: 01-229 9341

"HELP THEM GROW OLD WITH DIGNITY"

BASE LENDING RATES

A.B.N. Bank	11½%	Heritable & Gen. Trust	11½%
Allied Dunbar & Co.	11½%	■ Hill Samuel	§11½%
Allied Irish Bank	11½%	C. Hoare & Co.	11½%
American Express Bk.	11½%	Hongkong & Shanghai	11½%
Henry Ansbacher	11½%	Johnson Matthey Bkrs.	11½%
Amro Bank	11½%	Knowsley & Co. Ltd.	12 %
Associates Cap. Corp.	12 %	Lloyds Bank	11½%
Banco de Bilbao	11½%	Edward Manson & Co.	12½%
Bank Hapoalim	11½%	Meghraj & Sons Ltd.	11½%
BCCI	11½%	Midland Bank	11½%
Bank of Ireland	11½%	■ Morgan Grenfell	11½%
Bank of Cyprus	11½%	Mount Credit Corp. Ltd.	11½%
Bank of India	11½%	National Bk. of Kuwait	11½%
Bank of Scotland	11½%	National Giro Bank	11½%
Banque Belge Ltd.	11½%	National Westminster	11½%
Barclays Bank	11½%	Northern Bank Ltd.	11½%
Beneficial Trust Ltd.	12½%	Norwich Gen. Trust	11½%
Brit. Bank of Mid. East	11½%	People's Trust	12½%
■ Brown Shipley	11½%	PK Finans. Intl. (UK)	12 %
CL Bank Nederland	11½%	Provincial Trust Ltd.	12½%
Canada Permanent	11½%	R. Raphael & Sons	11½%
Cayzer Ltd.	11½%	Roxburghe Guarantee	12 %
Cedar Holdings	12 %	Royal Bank of Scotland	11½%
■ Charterhouse Japhet	11½%	Royal Trust Co. Canada	11½%
Choulartons**		■ J. Henry Schroder Wagg	11½%
Citibank NA	11½%	Standard Chartered	‖11½%
Citibank Savings	¶12½%	TCB	11½%
City Merchants Bank	11½%	Trustee Savings Bank	11½%
Clydesdale Bank	11½%	United Bank of Kuwait	11½%
C. E. Coates & Co. Ltd.	12 %	United Mizrahi Bank	11½%
Comm. Bk. N. East	11½%	Westpac Banking Corp.	11½%
Consolidated Credits	11½%	Whiteaway Laidlaw	12 %
Continental Trust Ltd.	11½%	Yorkshire Bank	11½%
Co-operative Bank	11½%		
The Cyprus Popular Bk.	11½%		
Duncan Lawrie	11½%		
E. T. Trust	12 %		
Exeter Trust Ltd.	12 %		
Financial & Gen. Sec.	11½%		
First Nat. Fin. Corp.	12½%		
First Nat. Sec. Ltd.	12½%		
■ Robert Fleming & Co.	11½%		
Robert Fraser & Ptns.	12½%		
Grindlays Bank	‡11½%		
■ Guinness Mahon	11½%		
■ Hambros Bank	11½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 8.00%. 1-month 8.50%. Top Tier—£2,500+ at 3 months notice 11.25%. At call when £10,000+ remains deposited.
† Call deposits £1,000 and over 8.00% gross.
‡ 21-day deposits over £1,000 9.25%.
¶ Mortgage base rate.
** See Provincial Trust Ltd.
§ Demand dep. 8%. Mortgage 13%.

Co-operative Bank p.l.c.

(Incorporated in England under the Companies Acts 1948 and 1980)

U.S.$ 25,000,000
Floating Rate Capital Notes 1986

NOTICE OF REDEMPTION

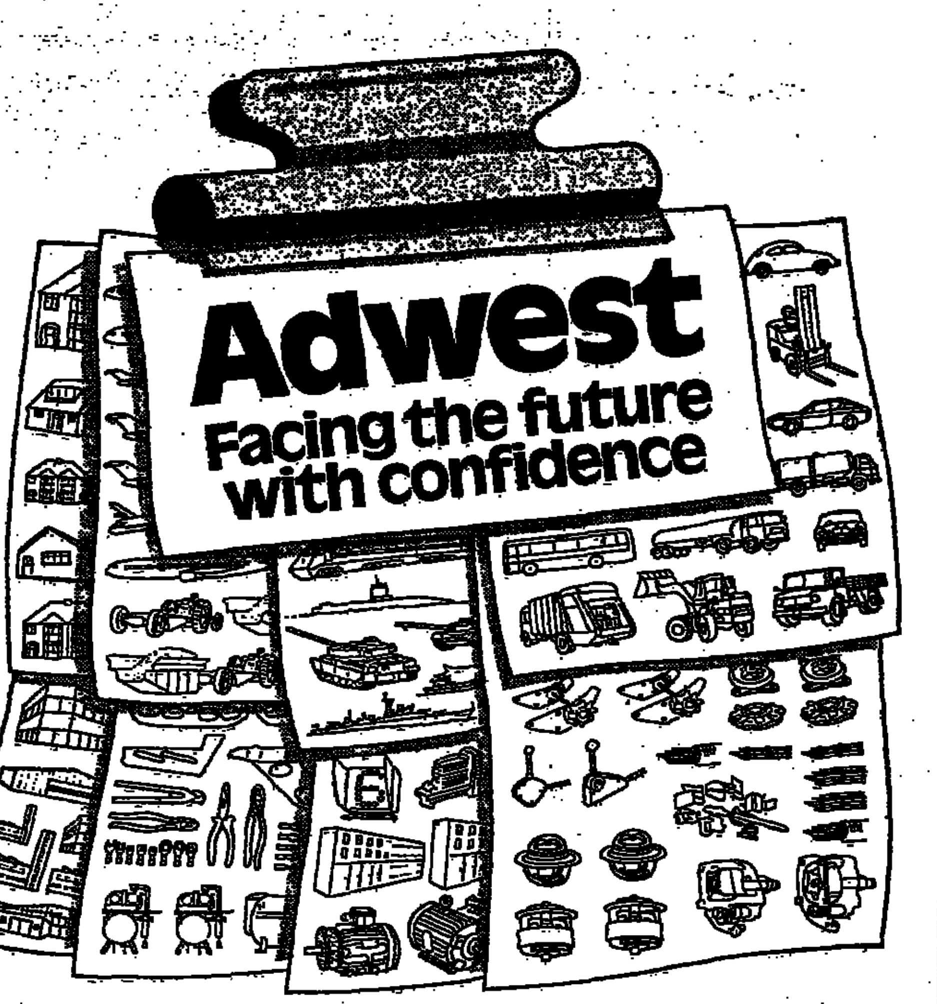
Co-operative Bank plc hereby give notice, in accordance with Condition 4 (b) of the Notes that all outstanding notes will be redeemed at par on the date of the next interest payment, being 20th November 1985 against surrender of notes with all unmatured coupons attached. Coupon number 12 maturing on 20th November 1985 should be presented for payment in the usual manner.

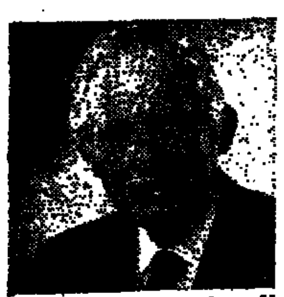
Interest on the Notes will cease to accrue from the date of redemption.

Agent Bank
London & Continental Bankers Limited

14th October 1985

Adwest
Facing the future with confidence





Mr F. V. Waller, Chairman, reports turnover up from £70.5 million to £77.3 million and profit before tax increased from £8.3 million to £8.7 million.

A total dividend is recommended of 7.75p per share compared with 6.7p – an increase of 15.7%.

Results for the year were adversely affected by industrial action at two companies in the Automotive division but improved results from these and other Group companies are now anticipated.

Income from property developments has again increased and this is expected to continue next year.

THE FUTURE

The Board looks to the future with confidence. Income from properties will continue to grow whilst most of the Group's engineering companies have growth possibilities. The company's cash position remains strong and will improve as the year goes on. The search will continue for suitable companies to acquire.

Current indications are that the Group will have a successful year.

Copies of the Annual Report, containing the Chairman's Statement in full, are available from: The Secretary, Adwest Group p.l.c., Reading RG5 4SN.

Adwest Group

AUTOMOTIVE, ELECTRICAL AND ENGINEERING PRODUCTS, PROPERTY DEVELOPMENT

The partners of

Denton Hall & Burgin *established 1788* and Warrens *established 1740*

announce the merger of their firms

into

Denton Hall Burgin & Warrens

with effect from 14th October 1985.

London
Denning House, 90 Chancery Lane, London WC2A 1EU. Tel: 01-242 1212.
And also at
Heron Quays, Marsh Wall, West India Docks, London E14 9SR. Tel: 01-538 7676.
Hong Kong
Denton Hall Burgin & Warrens, 1001 Hutchison House, Harcourt Road, Hong Kong. Tel: 5-266272.
Singapore
Denton Hall Burgin & Warrens, Suite 3808, 38th Floor, OCBC Centre, Chulia Street, Singapore 0104. Tel: 5342134-6.
Los Angeles
Denton Hall Burgin & Warrens, 11377 West Olympic Boulevard, 6th Floor, Los Angeles, California 90064. Tel: (213) 312 3201.

NORWAY'S OIL BANK

As Norwegian energy reserves are so substantial, petroleum business is of great importance to the country's economy. Union Bank of Norway has all the experience and expertise of project finance for the North Sea, as well as managing and underwriting syndicated loans and new issues. Contact in Norway Carl Erik Haavaldsen or Tom Fronth-Mathisen.

NORWAY'S CAPITAL MARKETS BANK

UBN are active as managers and underwriters in Eurobonds in Kroner and other currencies, Government Bonds and Viking Bonds – the last of which we originated. Overall our role in the Euromarkets is a vital part of the growing internationalisation of the Norwegian Banking industry. Contact in Norway Per Hagen or Morten Engebretsen.

NORWAY'S FOREIGN EXCHANGE BANK

We offer a complete range of asset and liability management services. This includes currency options, financial futures and interest rate and currency swaps. We are also the main supplier of foreign currency to the savings banks, a role that has increased both in size and importance as the banks themselves have grown. Contact in Norway Geir Bergvoll or Bjørn Kaaber.

NORWAY'S INVESTORS' BANK

The Norwegian Stock Market has outperformed most stockmarkets over the last few years. UBN has one of the biggest stock exchange departments in Norway and is well equipped to take care of your equity transactions. We also have a leading position in domestic bond issues and secondary market trading in bonds. Contact in Norway Knut Ørbech or Stein Jodal.

NORWAY'S NEW BANK

Union Bank of Norway was created on 14th October by a merger between Sparebanken Oslo Akershus and Union Bank of Norway Ltd. [Fellesbanken A/S). We are one of the "big four" in Norway with total assets of U.S: $4.0 billion. The new bank will also be the central bank to the more than 200 savings banks in Norway with a unique network of more than 1,300 outlets all over the country.

London: Senior Representative Malcolm Stuart Allen. Tel: 01-248 0462. ■ New York: Representative Arthur L. Reisch. Tel: (212) 986-0614. ■ Luxembourg: (Subsidiary) Managing Director Øyvind Pamemann. Tel: 4768731. ■ Copenhagen: Representative Ole Mölgaard. Tel: 451-11 27 33. ■ Helsinki: Representative Fred Sundwall. Tel: 3580-1725239. ■ Stockholm: Representative Hans Wenehult. Tel: 468-7901379.

Head Office: Kirkegaten 14-18, Oslo, P.O. Box 1172 Sentrum, 0107 Oslo 1. Tel: (472) 31 90 50. Telex 19470 UBN BK. Domestic name: Sparebanken ABC.

Union Bank of Norway

BROAD BASED
That's BTR

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.

"Shorts" (Lives up to Five Years)

22 May 22 Nov	Exch. 12¼pc 1985	99⅞	15.4	12.26	11.88
25 Aug 25 Feb	Exch 11½pc '86	100⅛	19.7	11.74	11.09
11Oct 11Apr	Treas 10pcCnv 1986	99¾	4.9	10.04	10.82
19 Nov 19 May	Treas 3pc 1986	96⅛	12.4	3.11	9.48
19 Nov 19 May	Exch. 10½pc Cv '86	99⅝	12.4	10.53	10.97
12Dec 12Jun	Treas 12pc 1986	100⅝	7.5	11.93	10.88
10 Jan 10 Jul	Treas 8½pc 1984-86	98⅛	3.6	8.63	10.67
29 Apr 29 Oct	Exch 14pc 1986	103¼	23.9	13.58	10.78
21 May 21 Nov	Exch. 2½pc 1986	94¼	15.4	2.65	7.89

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
F.My.Au N.	Amer Medical Int $1	13⅝	8.7	72c	—	3.8
Fb My Ag N.	American T & T. $1	15⅛	26.3	$1.20	—	5.7
My Au N	F. Ameritech $1	62⅝	—	$6.00	—	6.9

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan. Aug	BPB Inds. 50p	297	1.7	7.7	3.0	3.7	11.8
Feb. Aug	Baggeridge Brick	310	1.7	6.25	3.7	2.9	13.3
Jan. June	Bailey (Ben) 10p	22	29.4	0.25	—	1.6	—

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
July Dec	Owen Owen	455	29.4	18.0	4.3	2.2	24.8
October	Pepe Group 10p	90	2.9	3.0	2.6	4.8	11.6

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Feb July	BM Group 10p	122	11.3	1.1	2.4	1.3	44.7
Oct May	Babcock Intl	148	2.9	8.0	1.7	7.7	(9.2)

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

HOTELS—Continued

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Apr Sept	Stakis 10p	62	29.7	1.0	2.8	2.3	18.4
Apr. Oct	Trusthouse Forte	138	12.8	4.74	1.7	4.9	14.8

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

		Stock	Price		Net	C'vr	Gr's
—		‡Ennex Int. Ir10p	30	—	—	—	—
—		Greenwich Res.	98	—	—	—	—
Apr	Oct	Hampton Areas 10p	148	29.7	3.75	0.9	3.6
—		♦Highwood Res.	150	—	—	—	—
May	Aug	Homestake Mining $1	£17½	22.5	Q20c	—	0.8
—		♦McFinley Red Lake	220	—	—	—	—
—		♦Mestn Explorations	225	—	—	—	—
—		♦New Sabina Res C$1	40½	—	—	—	—
—		Northgate C$1	210	9/77	—	—	—
Jan.	July	RTZ	555	13.5	†20.0	2.8	5.2
Jan	July	Do. 9¼pcLn '95-2000	£123	13.5	Q9¼%	14.0	7.9
—		♦Tara Expln $1	936	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♦ Not officially UK listed; dealings permitted under Rule 535(4)(a)
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ¤ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Stock	Price	+ or −	Stock	Price	+ or −
Albany Inv 20p	98xd	.....	Arnotts	191	
Craig & Rose £1	700	.....	CPI Hldgs	62	
Finlay Pkg 5p	54xd	....	Carrol Inds.	130	....
Higsons Brew	235	....	Dublin Gas	75	.....
Holt (Jos) 25p	730	....	Hall (R. & H.)	59	−1
IoM Stm. £1	87	....	Helton Hldgs.	22	..
IRISH			Irish Ropes	45	
Fund 11¼% 1988	£101½xd	..	Unidare	108	
Nat 9¾% 84/89	£97¾	−⅛	For Jacob (W. & R.) see Foods		
Fin. 13% 97/02	£109	....			

"Recent Issues" and "Rights" Page 22
(International Edition Page 22)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 per annum for each security.

APPOINTMENTS

INTERNATIONAL

Accountancy group KMG chooses Dutch chairman

Mr Paul Boschma of Holland becomes chairman of KMG worldwide replacing Dr Reinhard Goerdeler who was the group's first chairman for six years. Mr Boschma was formerly chairman of the Groupe d'Etudes.

Mr John Kirkpatrick of KMG Thomson McLintock steps down after six years as chairman of KMG's Region 1 (Europe, Africa and Middle East) and is replaced by Mr John Gath of KMG Jespersens, who is also president of the Danish Institute. Mr Bill Morrison, executive partner of KMG Thomson McLintock, has been appointed to the central mangement committee of KMG. These appointments were made at the annual conference of KMG, held recently in San Franisco.

The group has extended membership to firms in Columbia, Iceland and Jordan. These are Amezquita y Cia, Endurskodun HF and Michel Sindaha & Co. KMG has opened its first office in the People's Republic of China at Beijing.

Xerox restructures Crum & Forster

BY PAUL TAYLOR IN NEW YORK

XEROX, THE U.S. office equipment group which recently undertook major restructuring and strengthening of its beleagured Crum and Forster insurance unit resulting in a projected $160m third quarter after-tax charge, has followed the move with a sweeping management re-organisation of the insurance subsidiary in the wake of the resignation of Crum and Forster's chairman and the retirement of its vice-chairman.

Xerox, which said it had "accepted the resignation" of Mr John Lundberg, Crum and Forster's chairman, and that Mr Donald McComber, the insurance unit's vice chairman, had announced his retirement, said it was appointing a new management team — including several senior Xerox executives — to run the property/casualty insurer.

The management changes include the appointment of Mr Melvin Howard, Xerox's executive vice chairman and president of its financial services organisation, to the additional post of chairman and chief executive of Crum and Forster.

Mr Sidney Wentz, president and former chief financial officer of Crum and Forster, remains president of the unit and assumes the additional title of chief operating officer. Together with Mr Howard he will form an executive office to direct the management of the insurance subsidiary.

Other changes include naming Mr John McGinty, Xerox's vice president and treasurer, to be a vice chairman and chief financial officer of Crum and Forster and the appointment of Mr James Cutro, a Crum and Forster senior executive vice president, to be a vice chairman and chief administrative officer.

Mr David Kearns, Xerox chairman and chief executive, who announced the management reshuffle said: "This reorganisation, plus other recent moves, positions us to grow our properaty and casualty business over time and fully participate in the more favourable conditions emerging in that industry."

Xerox has made a number of key moves to strengthen the unit including closing down a small financial guarantee insurance unit, bolstering inadequate loss reserves at another Crum and Forster unit, and the addition of $200m in new capital to the insurance subsidiary.

The company has appointed Mr Stuart Ross as chief financial officer. He remains controller.

Mr Oswald H. Staubli has succeeded Mr Erich Sievers as chairman of VISCOSUISSE, Switzerland's leading fibres producer and a subsidiary of the French Rhone-Poulenc Group. Mr Sievers has retired from the Emmenbruecke based company's board on reaching the statutory age limit. Mr Staubli was appointed Viscosuisse's managing director in April.

National Forge has new chief

Mr George H. Wells has been appointed president and chief operating officer of NATIONAL FORGE COMPANY, of Irvine Pennsylvania. Formerly executive vice-president, Mr Wells succeeds Mr Alfred Rau, who has been elected vice-chairman of the board. Both will continue to be members of the board's executive committee.

Mr Wells joined National Forge in 1980 as controller after several years with Price Waterhouse. In 1982, he was promoted to vice-president and controller, responsible for accounting, data processing and operational auditing. In 1983, he was given the additional title of president of Prometech, National Forge's powder metal parts subsidiary. He was elected vice-president, management systems in 1984 and executive vice-president and board member in, 1985.

Senior posts at Lockheed

LOCKHEED CORPORATION, of Burbank, California, has elected Mr Lawrence O. Kitchen to succeed Mr Roy A. Andersen as chairman and chief executive when Mr Andersen retires at the end of this year.

Mr Kitchen is president and chief operating officer. Mr Andersen, who will be 65 in December, said last May he intended to retire at 65. He will continue as a member of the company's board, chairman of its executive committee, and a consultant to the corporation.

Mr Robert A. Fuhrman is to replace Mr Kitchen as president and chief operating officer. Mr Fuhrman is currently president of the Lockheed missiles space and electronics systems group.

Mr Daniel M. Teller, president of Lockheed Missile and Space Company, will succeed Mr Fuhrman as group president.

These management changes are from January 1, 1986.

President for Sperry

Mr Joseph J. Kroger has been elected president and chief operating officer of SPERRY CORPORATION. He has been executive vice president of the corporation and president of its information systems group. He will direct the worldwide operations of the $5.7bn electronic systems company, reporting to chairman and chief executive officer Mr Gerald G. Probst.

The position of president and chief operating officer has not been filled since 1982, when Mr Probst, who had held it for two years, was elected chairman and continued to direct the operations under a restructured organisation.

"The president and chief operating officer position is being reinstituted now," Mr Probst said, "Because of the need for a new management structure to lead Sperry's transition from a diversified manufacturer with a financial holding company orientation, to an operations-orientated company concentrating on computers and other electronic systems and equipment."

The Sperry board also elected three senior vice presidents: Mr Frank F. Castaldi, finance; Mr Edwin P. Gilbert, controller and management information systems; and Mr John P. Karalis, general counsel.

Changes at Kuoni

BY JOHN WICKS IN ZURICH

Early next year Mr Kurt Heiniger, 44-year-old general manager of the Zurich-based international travel-agency group KUONI, is to become deputy to Mr Jack Bolli (62), the company's chairman and managing director.

At the same time, Mr Heiniger will take over responsibility from Mr Bolli for the international division, which last year accounted for SwFr 524m of the group's SwFr 1.26bn turnover. Among the leading foreign subsidiaries is the long-distance specialist Kuoni Travel, of Dorking.

Mr Hans-Rudolf Egli will succeed Mr Heiniger at the head of the Swiss division and will also be responsible for marketing. Mr Egli is to be promoted to general manager.

F.T. CROSSWORD PUZZLE No. 5,846

ACROSS

1 Motorway fury at illusory prospect of refreshment (6)
4 A fine state to be in (6)
8 All the same, a soldier has to assume it (7)
9 Deliver a new agreement to the present tenant (7)
11 Fought mid shrieks, perhaps (10)
12 Famous ship is short of freight (4)
13 Source of wild laughter (5)
14 Hibernian leads a machine operator a lively dance (5, 3)
16 Henry takes in a revolting character, making a bloomer (8)
18 Kind of music popular with children? (5)
20 Record turn-over? (4)
21 Sound chap in broadcasting (7, 3)
23 Conclude there's no place for the damned (7)
24 Bill can sing well, it seems (7)
25 Is in a hide to see a bird (6)
26 Menace that surrounds a soldier (6)

DOWN

1 Minks seen around Russian city (5)
2 Game-warden? (7)
3 Men involved with a tiger shoot (9)
5 Don't go on about me to improve matters (5)
6 Laundry-bay (3, 4)
7 Simple departure is without formality (4-5)
10 It's often taken up by winter sportsmen (5-4)
13 People are known to hit them (9)
15 What holds the saddle on a certainty? (3, 1, 5)
17 Say that's quick! (7)
19 Not far out in marine navigation (7)
21 What disturbs an Asian nun, I conclude, is not excitement (5)
22 Turncoats, of course (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

UK APPOINTMENTS

Senior Post Office job

Mr John Roberts joins the POST OFFICE board as managing director counter services from today. He is at present director counter services and succeeds Mr Alan Clinton, who is retiring. Mr Roberts joined the Post Office in 1967. In 1980 he was appointed secretary designate of the new Post Office Corporation, and on the setting up of the corporation in 1981 combined the posts of secretary and director counter services. He relinquished the duties of secretary in 1982.

★

Mr Gary Noble has been appointed editor of Farmers Weekly. He joins the magazine, published by BUSINESS PRESS INTERNATIONAL, from one of the group's other publishing divisions, Transport Press. He was publisher of Motor Trader and Railway Gazette International.

★

Mr P. C. Badcock and Mr G. A. Sutton have joined the board of BREDERO PROJECTS. Mr Badcock is to be responsible for finance and administration. Mr Sutton was previously deputy director of Bredero Projects, having joined the company in 1980. The appointments are intended to strengthen the management team at a time when the company is becoming involved in more large development projects.

★

Mr Barry Myers has been appointed managing director of CEMENTATION CIVIL AND SPECIALIST ENGINEERING DIVISION, part of Trafalgar House Construction Holdings. This is in addition to his role as managing director of the international construction division. He also becomes chairman of operating companies which include Cementation Construction, RDL Contracting, Dowsett Engineering Construction, Cementation Piling and Foundations, and Cementation Chemicals.

★

Mr R. J. Preston has been appointed financial director of SPECTROS INTERNATIONAL. He was previously financial director of Henry Boot and Sons.

★

Mr Joe Haines has been appointed to the board of MIRROR GROUP NEWSPAPERS. Mr Haines is the political editor of the MGN group.

★

Mr Tony Clark has been appointed sales director of UNI-TUBES, the electrical manufacturing company. Mr Clark joined Uni-Tubes in 1980 as business development manager for new products.

★

Mr Peter Pears has been appointed a director of THE CREDIT INSURANCE ASSOCIATION, a member of the Hogg Robinson Group. Mr Pears joined CIA in Birmingham 33 years ago. In his new post, he will concentrate on major clients in the Midlands region.

CONTRACTS

£16m for refurbishing power station generators

NEI PARSONS turbine generator services unit has a contract from the CEGB worth £16m for improvement and modernisation work to extend the life of 500 MW generators at power stations throughout England and Wales. The work, which will take four years, will be carried out at the Heaton Works of NEI Parsons in Newcastle upon Tyne which has recently undergone a £40m capital investment programme to achieve greater manufacturing productivity and quality. Further orders, of a similar nature, are expected for work on turbines and auxiliary plant. NEI Parsons is part of Northern Engineering Industries.

★

Barclays Bank is to spend more than £40m on a new countrywide data communications network which will keep the bank at the forefront of technology usage. It will have 30 times the capacity of the present network which, when installed in 1974, was among the world's most modern banking communications systems.

Backbone of the network will be NORTHERN TELECOM'S SL-10 equipment using IBM's proprietary architecture, SNA, and the internationally accepted standard X25.

IBM control units will supply the interface between the bank's large IBM computers and its branches which will employ Digital Equipment Corporation machines. British Telecom will provide interconnection equipment and hardware capable of covering contingency needs.

STC TELECOMMUNICATIONS has won orders from the U.S. worth about £4m for optical fibre transmission cable. The cable can carry more than 100,000 simultaneous telephone conversations. Each fibre can carry 8,000 simultaneous telephone calls, which is four times the capacity of any system in the UK. U.S. Telecom, a United Telecommunications Inc. subsidiary installing a nationwide network in the U.S., awarded the contract.

★

STELRAD has won its largest radiator export order—a £2m contract to supply 138,000 radiators to Algeria. The radiators are being delivered to Prometal, an Algerian company who are supplying them to house building projects throughout Algeria.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Oppenheimer Fund Mngt Ltd.
66 Cannon St, London EC4N 6AE. Dlg. 01-236 3885

International Growth	87.1	92.8	.....	2.00
Income & Growth	42.9	44.5	+0.4	5.20
Special Situations	50.7	54.0	+0.1	1.40
American Growth	25.4	27.1	+0.1	1.10
Japan Growth	34.0	36.2	+1.2	—
European Growth	37.8	40.4	-0.3	3.50
UK Growth	39.9	42.6	+0.4	—
Pacific Growth	30.8	32.9	.....	1.80
High Income	27.8	29.7	+0.1	7.40
Practical Income Units	40.7	43.3	+0.2	3.1
Practical Accum. Units	73.1	77.8	+0.4	3.1

Pearl Trust Managers Ltd. (a)(g)
252, High Holborn, WC1V 7EB. 01-405 8441

Pearl Growth Fd.	64.1	68.2	+0.1	3.20
Accum Units	94.8	100.8	+0.1	3.20
Pearl Inc.	89.9	95.4	+0.7	5.14
Pearl Unit Tst.	95.2	101.3	+0.7	4.05
(Accum. Units)	160.9	171.2	+1.2	4.05

Perpetual Unit Trust Mngmt. (a)
48, Hart Street, Henley on Thames. 0491 576868

Growth	190.9	202.7	.....	1.98
Income	143.6	153.0	+0.9	5.55
Worldwide Recovery	104.5	112.0	+0.1	2.73
American Growth	51.8	55.6	+0.1	1.14
Intl. Emerging Cos.	57.8	62.1	.....	0.76
Far East Growth Fd.	50.0	53.7	+0.3	1.0

Prolific Unit Trusts
222, Bishopsgate, EC2. 01-247 7544/7

Prolific Far East	110.9	118.0	+0.7	0.24
Prolific Extra Inc.	63.3	67.3	+0.5	5.98
Prolific Gilt Cap.	84.5	87.0	+0.4	9.13
Prolific High Inc.	137.7	146.5	+0.9	5.68
Prolific Intl.	82.4	88.3	+0.6	1.93
Prolific N. Amer.	106.2	113.0	+0.5	2.69
Prolific Spec. Sits.	150.5	160.1	+2.3	1.54
Prolific Technology	93.8	100.9	.....	0.85

Swiss Life Pen. Tst. Man. Co. Ltd.(a)(c)
99-101 London Rd, Sevenoaks. 0732 450161

Equity Dist.*	219.9	232.6	.....	4.07
Equity Acc.*	261.0	276.1	.....	4.07
Fixed Int. Dist.†	119.6	129.9	.....	10.91
Fixed Int. Acc.†	160.8	174.9	.....	10.91

*Prices on Oct 9. Next dealing Nov 13.
†Prices on Oct 2. Next dealing Nov 6.

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens Hse, Andover, Hants, SP10 1PG
0264 62188. Dealings to 0264 63432-3

TSB American	87.4	93.0	.....	1.56
Do. Accum.	91.0	96.9	+0.1	1.56
TSB Extra Income	84.7	90.2	+0.4	6.48
Do. Accum.	97.5	103.6	+0.4	6.48
TSB General	122.4	130.2	+0.8	3.57
Do. Accum.	198.3	210.9	+1.3	3.57
TSB Gilt & Fxd Int.	48.0	50.0	.....	9.18
Do. Accum.	59.0	61.5	.....	9.18
TSB Income	164.8	180.7	+1.1	4.96
Do. Accum.	256.2	272.6	+1.7	4.96
TSB Pacific	107.3	114.9	+0.1	0.71
Do. Accum.	110.0	117.1	+0.1	0.71
TSB International	230.7	245.4	+0.6	2.04
Do. Accum.	280.8	298.8	+0.7	2.04
TSB Natural Resources	43.0	45.0	-0.3	2.15
Do. Accum.	43.8	46.7	-0.3	2.15
TSB Scotl. Dept.	47.4	50.5	+0.3	2.26
Do. Accum.	51.7	55.0	+0.4	2.26

3i & Target Fund Mgrs Ltd
Target House, Gatehouse Road, Aylesbury, Bucks
Aylesbury (0296) 5941

Small Co's Fund	65.9	68.3	.....	0.30

Target Trust Mngrs. Ltd. (a)(g)
Target Hse, Gatehse. Rd, Aylesbury Bks. (0296) 5941

American Eagle	61.5	65.6	+0.8	0.65
Australia	30.6	32.6	+0.3	0.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund NAV | $12.41 | -0.03 | —

World Wide Growth Management♦
10a, Boulevard Royal, Luxembourg
Worldwide Gth Fd | $13.30 | +0.04 | —
Inv. Adv.: M. & G. Inv. Mngt., Ltd, London.

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg
Advanced Tech | $10.46 | +0.10 | —
Dynamic Gwth Fd | $9.44 | +0.13 | —

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund — 77 London Wall, London EC2N 1DB — 01-588 1815				
Deposit	11.30	—	—	3-Mth
The Money Market Trust — 63 Qn Victoria St, EC4N 4ST. — 01-236 0952				
Call Fnd	11.57	8.45	12.04	Mth
7-day Fnd	11.35	8.63	12.01	Mth
Oppenheimer Money Management Ltd — 66 Cannon St, EC4N 6AE. — 01-236 1425				
Call Fnd	11.66	8.72	12.05	6-Mth
7-day Fund	11.89	8.29	12.19	6-Mth
Dollar	8.07	—	—	6-Mth
Money Mngt. Acct	11.00	8.22	11.74	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc — 22 Charlotte Sq. Edinburgh, EH2 4DF — 031-225 8484				
Full Service Chq Acc	11.25	8.08	11.93	Qtr
Aitken Hume — 30 City Road, EC1Y 2AY. — 01-638 6070				
Treasury Acc	11.25	8.43	12.58	Qtr
Mth. Int. Chq.	11.125	8.32	12.34	Mth
Bank of Scotland — 38 Threadneedle St, EC2P 2EH. — 01-628 8060				
Money Mkt Cheque Acc	11.00	8.22	12.18	Mth
Barclays Prime Account — PO Box 125, Northampton — 0604 252891				
High Int. Cheque	11.0	8.25	12.32	Qtr
Britannia Investment Services Ltd. — 29 Finsbury Circus, EC2M 5QL. — 01-588 2777				
Cater Allen	11.13	8.35	12.34	Mth
Charterhouse Japhet plc — 1 Paternoster Row, EC4M 7DH. — 01-248 3999				
Sterling	11.15	8.52	12.34	Mth
U.S. Dollar	7.25	7.25	7.50	Mth
German Marks	4.25	4.25	4.33	Mth
Swiss Francs	1.50	1.50	1.51	Mth
Japanese Yen	5.06	5.00	5.12	Mth
Citibank Savings — St Martins Hse, Hammersmith Grove — 01-748 9251				
Money Market Plus	—	9.57	14.28	Mth
Co-operative Bank Cheque & Save — 78-80 Cornhill EC3 01-626 6543.				
£500-£2,500	9.50	7.10	10.41	Qtr
£2,500 +	12.00	8.97	13.28	Qtr
Dartington & Co Ltd — Dartington, Totnes, Devon TQ9 6JE. — 0803 862271				
Money Mkt Acc	11.00	8.23	12.27	Qtr
Edward Manson & Co Ltd — 9 Henrietta Place W1M 9AG — 01-631 3313				
Cheque Deposit Acc	11.50	8.59	12.08	Mth
Henderson/Bank of Scotland — 38 Threadneedle St EC2P 2EH. — 01-628 8060				
Money Mkt. Cheque Acc.	11.00	8.22	12.18	Mth
Lloyds Bank PLC — 71 Lombard St, London, EC3P 3BS. — 01-626 1500				
High Int Cheque Account	11.25	8.25	12.32	Qtr
Lombard North Central PLC — 17 Bruton St, W1A 3DH. — 01-409 3434				
14-Day Notice	11.500	8.596	12.280	—
M & G/Kleinwort Benson — 91-99 New London Rd, Chelmsford. — 0245 51651				
H.I.C.A.	11.125	8.30	12.35	Daily
Midland Bank plc — PO Box 2, Sheffield. — 0742 20999 Ext 8658				
High Int Chq Acc	10.70	8.00	11.98	Qtr
£10,000 +	11.17	8.35	12.47	Qtr
Provincial Trust (formerly Cheshartons) — 30 Ashley Rd, Altrincham, Cheshire — 061-928 9011				
Cheque Acc	11.50	8.60	13.00	Mth
Royal Bank of Scotland plc — 24 Lombard St, London EC3V 9BA — 031-557 0201				
Premium Account	11.0	8.22	12.27	Qtr
Save & Prosper/Robert Fleming — 28 Western Rd, Romford RM1 3LB. — 0708 66966				
H.I.B.A.	10.85	8.30	12.05	Daily
Tyndall & Co — 29-33 Princess Victoria St, Bristol. — 0272 732241				
Demand Acc	11.18	8.35	12.40	Qtr
Money Acc	11.05	8.25	12.31	Qtr
J. Henry Schroder Wagg & Co Ltd — Enterprise House, Portsmouth — 0705 827733				
Special Acc	11.15	8.33	11.98	Mth
Over £10,000	11.40	8.52	12.17	Mth
Western Trust & Savings Limited — The Moneycentre, Plymouth PL1 5E — 0752 24141				
High Int Chq Acc	11.69	8.74	12.90	Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ø Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	28	Marks & Spencer	13
BAT	26	Midland Bk.	35
BOC Grp.	27	NEI	10
BSR	8	Nat West Bk.	55
BTR	33	P & O Dfd.	35
Babcock	13	Plessey	14
Barclays	35	Polly Peck	21
Beecham	30	Racal Elect.	15
Blue Circle	50	RHM	12
Boots	18	Rank Org Ord.	35
Bowaters	30	Reed Intnl.	40
Brit Aerospace	32	Sears	11
Brit. Telecom	17	TI	35
Brown (J.)	$3\frac{1}{2}$	Tesco	24
Burton Ord	45	Thorn EMI	34
Cadburys	13	Trust Houses	12
Charter Cons.	18	Turner Newall	$9\frac{1}{2}$
Comm Union	23	Unilever	90
Courtaulds	13	Vickers	35
Distillers	36	**Property**	
FNFC	12	Brit Land	14
Gen Accident	55	Land Secs.	26
Gen Electric	14	MEPC	26
Glaxo	100	Peachey	20
Grand Met.	30	Samuel Props	15
GUS 'A'	70	**Oils**	
Guardian	40	Brit. Oil & Min.	$3\frac{1}{2}$
GKN	20	Brit Petroleum	45
Hanson Tst.	18	Burmah Oil	27
Hawker Sidd.	36	Charterhall	4
ICI	42	Premier	5
'Imps'	16	Shell	55
Jaguar	27	Tricentrol	18
Ladbroke	27	Ultramar	18
Legal & Gen	60	**Mines**	
Lex Service	24	Cons Gold	40
Lloyds Bank	35	Lonrho	12
Lucas Inds	38	Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

WORLD STOCK MARKETS

Indices

NEW YORK — DOW JONES

	Oct. 11	Oct. 10	Oct. 9	Oct. 8	Oct. 7	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
♦Industri'ls	1339.34	1328.87	1326.72	1325.48	1324.37	1359.54 (19/7)	1184.96 (4/1)	1359.54 (19/7/85)	41.22 (2/7/32)
Home Bnds	72.09	79.12	79.17	79.19	79.56	80.65 (16/7)	72.09 (11/10)	—	—
Transport.	647.47	642.32	642.56	640.80	642.32	702.6 (17/7)	553.03 (4/1)	702.6 (17/7/85)	12.32 (8/7/32)
Utilities	154.08	153.88	154.06	153.57	154.08	168.91 (12/7)	146.54 (4/1)	168.91 (12/7/85)	10.5 (28/4/42)
TradingVol 000-†	96,370	91,487	99,880	87,170	95,550	—	—	—	—

♦Day's High 1343.41 (1333.33) Low 1323.70 (1318.44)

Industrial dividend yield%	Oct. 4	Sept. 26	Sep. 20	year ago (approx)
	4.54	4.66	4.74	4.88

STANDARD AND POORS

	Oct. 11	Oct. 10	Oct. 9	Oct. 8	Oct. 7	1985 High	1985 Low	Since Comp'n High	Since Comp'n Low
Industrials	205.64	203.95	203.82	202.99	203.03	215.83 (19/7)	128.24 (4/1)	215.83 (19/7/85)	3.62 (30/6/32)
Composite	184.28	182.78	182.52	181.87	181.87	195.65 (17/7)	163.68 (4/1)	195.65 (17/7/85)	4.40 (1/6/32)

	Oct. 9	Oct. 2	Sept. 25	year ago (approx)
Industrial div. yield	3.96	3.90	3.88	4.10
Industrial P/E ratio	12.27	12.39	12.13	10.47
Long Gov. Bond yield	10.61	10.51	10.51	12.16

N.Y.S.E. ALL COMMON

Oct. 11	Oct. 10	Oct. 9	Oct. 8	1985 High	1985 Low
106.58	105.75	105.54	105.19	113.49 (17/7)	94.60 (4/1)

Rises and Falls	Oct. 11	Oct. 10	Oct. 9
Issues Traded	1,961	1,961	1,965
Rises	966	815	840
Falls	486	647	604
Unchanged	509	499	521
New Highs	29	26	32
New Lows	29	40	34

TORONTO

	Oct. 11	Oct. 10	Oct. 9	Oct. 8	1985 High	1985 Low
Metals & Minerals	1858.79	1851.45	1846.67	1848.59	2190.07 (15/2)	1839.3 (8/1)
Composite	2818.1	2806.8	2818.4	2820.8	2819.9 (30/8)	2348.5 (8/1)
MONTREAL Portfolio	128.81	128.10	128.84	127.22	139.33 (19/7)	117.00 (4/1)

	Oct. 11	Oct. 10	Oct. 9	Oct. 8	1985 High	1985 Low
AUSTRALIA All Ord. (1/1/80)	1055.4	1065.2	1023.6	1017.7	1065.2 (10/10)	715.3 (7/1)
Metals & Minls. (1/1/80)	527.2	534.5	550.8	529.2	583.8 (20/5)	502.5 (7/1)
AUSTRIA Credit Aktien (2/1/62)	99.51	99.68	100.06	100.82	106.73 (17/8)	58.21 (24/1)
BELGIUM Brussels SE (1/1/80)	2510.27	2505.78	2500.33	2522.77	2528.88 (7/10)	2090.7 (18/1)
DENMARK Copenhagen SE (3/1/83)	—	231.92	232.25	226.56	231.92 (10/10)	158.44 (8/1)
FRANCE CAC General (31/12/82)	207.50	208.6	205.9	206.4	233.1 (31/5)	180.9 (5/1)
Ind Tendance (28/12/84)	116.30	116.3	116.2	715.6	158.4 (31/5)	100.1 (3/1)
GERMANY FAZ Aktien (31/12/58)	542.04	552.78	545.78	544.92	545.31 (7/10)	582.59 (3/1)
Commerzbank (1/12/53)	1588.6	1588.4	1588.5	1602.9	1604.8 (7/10)	1111.8 (3/1)
HONG KONG Hang Seng Bank (31/7/64)	1585.35	1588.15	1587.39	1588.58	1711.51 (19/8)	1220.74 (2/1)
ITALY Banca Comm Ital. (1972)	404.87	405.55	408.84	413.33	413.33 (8/10)	228.58 (2/1)
JAPAN** N'kkei-Dow (16/5/49)	12849.32	(c)	12857.2	12835.21	13049.1 (6/7)	11545.2 (5/1)
Tokyo SE New (4/1/68)	1057.64	(c)	1033.35	1029.8	1057.55 (10/7)	816.83 (4/1)
NETHERLANDS ANP-CBS General (1970)	210.6	211.1	211.2	208.8	225.8 (3/8)	185.8 (3/1)
ANP-CBS Indust (1970)	185.0	186.6	185.5	183.5	194.1 (3/8)	147.9 (3/1)
NORWAY Oslo SE (4/1/83)	578.78	575.41	578.01	576.46	576.46 (8/10)	288.18 (2/1)
SINGAPORE Straits Times (1966)	757.15	761.31	764.87	760.72	852.65 (7/5)	717.30 (15/7)
SOUTH AFRICA JSE Gold (28/9/78)	—	(c)	1053.4	1047.4	1140.8 (15/4)	828.5 (5/8)
JSE Indust (28/9/78)	—	(c)	975.5	974.1	1058.8 (16/7)	767.1 (7/5)
SPAIN Madrid SE (28/12/84)	117.01	116.86	116.21	115.75	117.41 (4/9)	101.48 (2/1)
SWEDEN Jacobson & P (11/58)	1556.12	1562.63	1567.74	1574.21	1486.98 (11/2)	1285.52 (9/7)
SWITZERLAND SwissBankCpn (31/12/58)	495.78	—	494.7	490.8	517.4 (10/10)	388.7 (3/1)
WORLD Capital Intl. (1/1/70)	—	224.1	224.2	225.1	225.1 (7/10)	184.6 (4/1)

** Saturday October 5: Japan Nikkei-Dow 12,750.86. TSE 1,023.88.

Base value of all indices are 100 except JSE Gold—255.7, JSE Industrial—254.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. n Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Beatrice Co	2,296,500	41½	+½	IBM	1,380,100	128⅞	+1⅛
Am Med Int	1,627,700	20⅜	+1	Prime Comp	1,235,600	16	+⅜
Western Air	1,585,300	7¾	+⅜	Gould Inc	1,234,700	34	+⅜
Pacific Corp	1,514,600	28½	−⅜	Hosp Cp Am	1,231,800	31⅞	+1⅛
Warner-Lam	1,413,500	34½	−2	NY Elec Gas	1,229,300	25⅜	—

CANADA

MONTREAL

Closing prices October 11

Sales	Stock	High	Low	Close	Chng
[illegible]					

TORONTO

Closing prices October 11

Sales	Stock	High	Low	Close	Chng
[illegible]					

F—No voting rights or restricted voting rights.

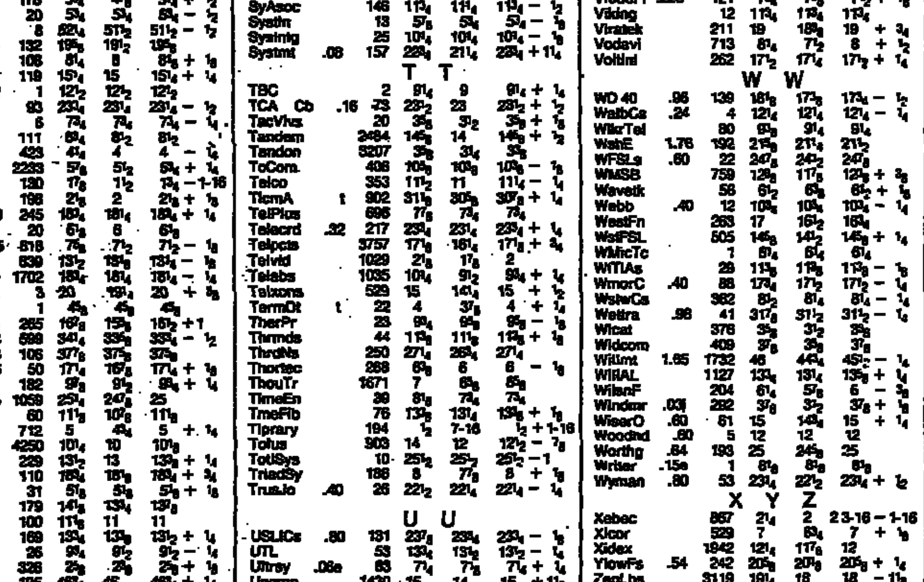
OVER-THE-COUNTER

Nasdaq national market, closing prices October 11

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued from Page 37

Stock	Sales (Hnds)	High	Low	Last	Chng
RedknL	.64	83	27½	27	27¼ + ¼
SonrFd	.45a	1	18¼	18¼	18¼ + ¾
UBAlsk	.15r	43	9	8¾	9 − ⅛
UBCol	1.08	1285	21⅞	21½	21⅞ + ¼



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FINANCIAL TIMES

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AUSTRIA

1985 High	1985 Low	Oct. 11	Price Sch. %
[illegible]			

BELGIUM/LUXEMBOURG

1985 High	1985 Low	Oct. 11	Price Frs.
[illegible]			

DENMARK

1985 High	1985 Low	Oct. 11	Price Knr. %
[illegible]			

FRANCE

1985 High	1985 Low	Oct. 11	Price Frs.
[illegible]			

SWITZERLAND

1985 High	1985 Low	Oct. 11	Price Frs.
[illegible]			

GERMANY

1985 High	1985 Low	Oct. 11	Price Dm.
[illegible]			

NORWAY

1985 High	1985 Low	Oct. 11	Price Kroner
[illegible]			

NETHERLANDS

1985 High	1985 Low	Oct. 11	Price Fls.
[illegible]			

ITALY

1985 High	1985 Low	Oct. 11	Price Lire
[illegible]			

SINGAPORE

1985 High	1985 Low	Oct. 11	Price $
[illegible]			

AUSTRALIA

1985 High	1985 Low	Oct. 11	Price Aust. $
[illegible]			

HONG KONG

1985 High	1985 Low	Oct. 11	Price H.K.$
[illegible]			

SOUTH AFRICA

1985 High	1985 Low	Oct. 11	Price Rand
[illegible]			

SWEDEN

1985 High	1985 Low	Oct. 11	Price Kroner
[illegible]			

JAPAN

1985 High	1985 Low	Oct. 11	Price Yen
[illegible]			

SPAIN

1985 High	1985 Low	Oct. 11	Price Pts %
[illegible]			

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

Closing prices, October 11

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24⅝	16	AAR	.56	2.5	15	34	23⅞	22¾	22¾	
17⅞	9¾	AGS			12	185	14⅝	14⅝	14½	
15⅞	9⅝	AMCA				13	10⅛	10	10	−⅛
50¾	26¼	AMR			7	3642	39⅝	38¼	39	+½
23⅝	18⅝	AMR pf2.18		9.4		1	23¼	23¼	23¼	
25⅞	23	ANR pf 2.67		11.		615	24	23¾	24	+⅝
22	19	ANR pf 2.12		11.		45	19¾	19½	19¾	+½
14¼	7⅝	APL				11	9⅞	9⅞	9⅞	−⅛
61⅛	34¾	ASA	2	5.2		103	38⅞	38¼	38¾	+¼
27	11¼	AVX	.32	2.9	16	197	11⅛	d10½	11	−¼
26⅝	18¼	AZP	2.72	11.	7	617	24½	23¾	24½	+½
60	36¾	AbtLab 1.40		2.5	15	1786	55½	54⅝	55½	+1
25⅞	19⅝	AccoWd .50		2.4	16	336	21¼	20⅞	21¼	+1⅛
24¾	12¼	AcmeC .40		3.0		6	13¾	13	13¼	+¼
10½	7⅜	AcmeE .32b		4.2	11	4	7⅝	7½	7⅝	+⅛
19	15½	AdaEx 1.92e		11.		88	17⅜	17⅛	17¼	
20	13½	AdmMl .32		1.9	7	66	17½	17¼	17¼	
17¾	8⅝	AdvSys .53t		3.8	20	116	14¼	13⅞	14	
37⅝	22⅛	AMD			14	3757	24⅝	23⅝	24⅛	+¼
12⅞	9⅞	Advest .12		1.4	20	230	9	8¾	8⅞	+⅛
15⅞	10	Aerflex			12	142	14	13⅞	14	

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
20⅝	18¼	RckCtr n				728	18½	18¼	18½	+¼
41¾	27¾	Rockwl 1.12		3.1	9	733	35¾	34⅞	35⅝	+½
73	55¾	RohmH 2.20		3.3	11	197	66⅛	65⅞	66	+⅛
70	40	Rohrin			10	279	57	55¾	56⅜	−⅞
27¼	13¾	RolnCm .40		1.6	30	580	25	24⅝	25	+⅝
18¼	5½	RolinE s			20	1284	10¾	10⅛	10½	+⅜
12⅝	8¾	Rollins	.48	4.0	16	208	11½	11⅜	11⅜	−⅛
3⅝	2	Ronson				40	2⅛	2	2	
19	11	Roper	.64	5.4		753	12	11¾	11⅞	+⅛
47	24	Rorer	1.12	2.7	20	2049	43	41¼	41¾	−1⅛
11⅞	7⅜	Rowan	.12	1.6	45	2791	7⅝	7½	7⅝	+⅛
64⅞	46	RoylD	3.29e	5.2	7	895	62¾	62½	62¾	
17	10⅛	Roylnt s			16	17	13¼	13⅛	13¼	
28⅛	19⅞	Rubmds			18	251	27⅜	26¾	27	+¼
26	14¾	RussBr			11	63	17⅞	16⅞	16⅞	
20¾	15⅝	RusTog	.76	3.9	10	46	19½	19⅛	19½	+⅜
31¼	20	RyanH	1	3.7	11	460	27⅛	26⅞	27⅛	+⅛
30⅞	22	Ryder s	.60	2.2	11	176	27¾	27½	27¾	+⅛
29	17⅞	Ryland	.66	3.1	13	35	21⅝	21⅛	21¼	−½
20⅛	8½	Rymer			5	12	16¾	16⅝	16¾	+⅛
13⅝	11⅝	Rymer pf1.17		9.9		20	11⅞	11⅞	11⅞	

S S S

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
74¼	38¼	SCM	2	2.7	17	752	72¾	72½	72¾	+¼
12⅝	9⅜	SL Ind	.22	1.8	10	26	12⅛	11⅝	12	+⅜
32¾	19½	SPSTec	.80	2.6	14	32	30¼	29⅞	30¼	+⅜
19	15	Sabine	.04	.3	36	96	15½	15⅜	15⅜	+⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17¼	7¼	Towle				58	7¾	7⅝	7¾	+⅜
10¼	4⅞	Towle pf.44		9.0		5	4⅞	4⅞	4⅞	−⅛
41¼	25¼	ToyRU s			26	1118	33¼	32⅝	32⅝	−⅛
28¼	17	Tracr s	.32	1.8	11	154	17¾	17¼	17¾	+¼
23	5⅞	TWA				951	22⅝	22¼	22½	
16	13	TWA pf2.25		15.		53	15⅜	15¼	15⅜	
34½	18½	TWA pfB2.25		6.7		1	33⅝	33⅝	33⅝	−⅛
32⅝	24¾	Transml .68		5.9	15	289	28¼	27⅞	28¼	+¼
21⅞	17¼	Transln 2.22		11.		24	21⅛	20⅞	20⅞	−⅛
14	11¼	TARlty	1	8.3	96	12	12	12	12	
21⅛	17⅝	TmCdan 1.12		6.3	7	15	17⅞	17¾	17⅞	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23⅝	15½	Wynns	.80	3.2	8	62	19½	18¾	19	−½

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
55½	35¼	Xerox	3	6.3	13	4838	47⅝	46⅝	47¼	−¼
55½	46½	Xerox pf5.45		10.		1	54⅝	54⅝	54⅝	
30¼	24⅜	ZaleCp 1.32		4.7	10	19	28	27¾	28	
18⅞	7¼	Zapata	.12	1.5	58	230	8¼	8⅛	8⅛	−⅛
57⅝	31½	Zayre s	.48	.9	16	88	51¾	51⅛	51¾	+¼
27	16¼	ZenithE			10	172	16⅞	16½	16¾	+⅛
21⅞	15¾	Zero s	.32	1.6	16	25	19⅝	19⅜	19⅝	
37¾	22⅞	Zurnln 1.32		3.9	11	24	34⅝	34⅝	34¼	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices October 11

OVER-THE-COUNTER

Nasdaq national market, closing prices, October 11

Continued on Page 35

North American quarterly results

DOW JONES
Business publishing, local newspapers

Third quarter	1985 $	1984 $
Revenue	249.7m	232.5m
Net profits	27m	26.5m
Net per share	0.42	0.41
Nine months		
Revenue	760.5m	708.6m
Net profits	97.7m	94.7m
Net per share	1.52	1.48

IC INDUSTRIES
Consumer products, railroad

Third quarter	1985 $	1984 $
Revenue	1.09bn	942.8m
Op. Net profits	39.9m	40.8m
Op. Net per share	0.74	1.03
Nine months		
Revenue	3.16bn	2.69bn
Op. Net profits	96.4m	88.4m
Op. Net per share	1.81	2.12

LEVI STRAUSS
World's largest clothing maker

Third quarter	1984-85 $	1983-84 $
Revenue	770.8m	718.8m
Net profits	35.9m	22.5m
Nine months		
Revenue	1.9bn	1.91bn
Net profits	81.5m	39.7m

MEAD
Pulp, paper & packaging

Third quarter	1985 $	1984 $
Revenue	709.5m	708.1m
Net profits	22.6m	48.2m
Net per share	0.76	1.56
Nine months		
Revenue	2.1bn	2.09bn
Net profits	80.3m	115.9m
Net per share	2.59	3.78

CURRENCIES, MONEY and CAPITAL MARKETS

NN

Dfls. 60,000,000.-
10% Bearer Notes 1980 due 1984/1987
of
NATIONALE-NEDERLANDEN N.V.
DELFT

As provided in the Terms and Conditions, Redemption Group No. 1, amounting to Dfls. 15,000,000.-, has been drawn for redemption on November 15, 1985 and includes the Note which bears consecutive number 1 and all Notes bearing a consecutive number which is 4, or a multiple of 4, higher than 1. The notes are payable as from

November 15, 1985

at
Algemene Bank Nederland N.V. (Central Paying Agent)
Bank Mees & Hope NV
Amsterdam-Rotterdam Bank N.V.
Pierson, Heldring & Pierson N.V.
Nederlandsche Middenstandsbank nv
in Amsterdam;
Rabobank Nederland
in Utrecht;
Algemene Bank Nederland (Schweiz)
in Zurich, Geneva and Chiasso;
Schweizerischer Bankverein
in Basle;
S.G. Warburg & Co. Ltd.
in London;
Banque Générale du Luxembourg S.A.
in Luxembourg.

October 14, 1985.

FINANCIAL TIMES
is proposing to publish a survey on
INTERNATIONAL GAS INDUSTRY
Publication date 5th December 1985
Copy date 21st November 1985
For further details contact:
William Clutterbuck
01-248 8000 ext 4148

FOREIGN EXCHANGES

A firmer hand called for

BY COLIN MILLHAM

The dollar settled down to a narrow trading range last week. There was resistance in the market when the dollar approached DM 2.63, but traders were also fearful of pushing the currency above DM 2.66. Central banks were not particularly active, but the threat of intervention was the major factor preventing a recovery by the dollar. The German Bundesbank, and possibly the U.S. Federal Reserve, sold dollars on Friday, after a larger than expected rise in September U.S. retail sales. But the central banks seemed generally prepared to stay on the sidelines as long as the dollar held around DM 2.65.

In the absence of any fresh initiative to depress the value of the dollar at the IMF gathering in Seoul, where finance ministers from the Group of Five major industrial nations were able to assess the success of their earlier meeting in New York on September 22, the currency had a firmer undertone.

The partial holiday in the U.S. for Columbus day today, and the very large rise in weekly M1 money supply of $5.3bn, published on Thursday, tended to underpin the dollar on Friday. But it was not until the announcement that September retail sales rose by 2.7 per cent, compared with a revised increase of 2.3 per cent in August, that the central banks needed to show their hand. It was generally anticipated that retail sales would increase by about 1.5 per cent, against an early figure of 1.9 per cent for August. Forecasts were in a very wide range however, and earlier in Tokyo it had been rumoured the rise would be only 1 per cent. This helped keep the dollar from rising too sharply in the Far East and prevented any intervention by the Bank of Japan at that time.

Earlier in the week the Japanese central bank kept up its attack on the dollar, but failed to achieve a lower trading range for the currency. On Thursday, Tokyo was closed for a national holiday and there was no sign of intervention on Friday, but earlier in the week the Bank of Japan probably spent up to $1bn preventing an appreciation by the dollar.

Intervention by the Bundesbank was sporadic. The German central bank appeared to sell about $50m on the open market on Monday, but apart from Friday's sales, only intervened by selling $6.1m at the Frankfurt fixing on Monday; $38.2m at Tuesday's fixing; and a mere $0.7m at Friday's fixing.

Total Bundesbank dollar sales during the week may have been little more than $100m, but the threat was enough to hold the dollar in check.

It now seems the central banks will have to show a firmer hand, or allow the dollar to rise again. There is no sign of an imminent cut in U.S. interest rates, and the amount of paper the U.S. Treasury is scheduled to sell until the end of the year is very large indeed, and will lend underlying support to the dollar.

On the other hand the Japanese Prime Minister visits Washington on October 24, and will want to offer a stronger yen as a counter to the protectionist lobby in the U.S. This probably means a fall in the value of the dollar to around Y200. Unless the relationship of other major currencies changes sharply against the yen, this also implies a dollar rate against the D-mark of less than DM 2.50, and a sterling/dollar rate of about $1.50.

£ IN NEW YORK

	Oct. 11	Prev. close
£ Spot	$1.4075-1.4090	$1.4105-1.4115
1 month	0.43-0.42 pm	0.43-0.42 pm
3 months	1.13-1.10 pm	1.15-1.12 pm
12 months	2.90-2.80 pm	2.95-2.85 pm

Forward premiums and discounts apply to the U.S. dollar

CURRENCY MOVEMENTS

Oct. 11	Bank of England Index	Morgan Guaranty Change %
Sterling	80.0	−10.3
U.S. dollar	131.8	+19.2
Canadian dollar	94.1	−3.7
Austrian schilling	118.4	+5.1
Belgian franc	91.6	−10.2
Danish kroner	81.5	−3.9
Deutsche mark	127.6	+9.7
Swiss franc	150.5	+13.4
Guilder	117.8	+5.4
French franc	68.4	−12.7
Lira	44.3	−18.9
Yen	170.4	+22.5

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

Oct. 11	£	$
Arg'tina	1.1276-1.1299	0.8000-0.8010
Australia	2.0085-2.0075	1.4810-1.4825
Brazil	11,346-11,408	8,050-8,090
Finland	8.0375-8.0605	5.7065-5.7075
Greece	195.56-199.60	131.52-134.28
H'kong	10.9795-10.9915	7.7860-7.7890
Iran	123.10*	86.90*
Kuwait	0.4160-0.4170	0.29585-0.29595
Lux'burg	76.05-76.15	53.85-53.95
Malay'sia	3.4635-3.4650	2.4535-2.4565
N'Zland	2.4185-2.4255	1.7185-1.7210
Saudi Ar.	5.1435-5.1525	3.6505-3.6605
Sing'pore	3.0060-3.0160	2.1260-2.1280
S.Af.(Cm)	3.7065-3.7250	2.6280-2.6420
S.Af.(Fn)	5.9170-6.0255	3.7780-3.9070
U.A.E.	5.1740-5.1840	3.6720-3.6730

* Selling rate.

CURRENCY RATES

Oct. 11	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.759473	0.590707
U.S. $	7½	1.06249	0.833827
Canadian $	8.83	—	1.14007
Austria Sch.	4	19.8367	15.6335
Belgian Fr.	9¼	56.5327	44.9067
Danish Kr.	7	10.2434	8.02822
D mark	4	2.82569	2.21193
Guilder	5	3.18599	2.49266
French Fr.	9½	8.60723	6.74647
Lira	15½	1907.26	1492.14
Yen	5	229.985	178.885
Norway Kr.	8	8.40061	6.58514
Span'h Pts.	—	172.304	134.888
Swedish Kr.	10½	8.46036	6.65857
Swiss Fr.	4	2.33156	1.81697
Greek Dr'ch	20½	141.619	110.452
Irish Punt	13½	0.912400	0.715240

* CS/SDR rate for Oct 10: 1.45554.

POUND—$ (Foreign Exchange)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4120	1.4076	1.4008	1.3833	1.3833

LIFFE-STERLING £25,000 $s per £

	Close	High	Low	Prev
Dec	1.4020	1.4050	1.3980	1.4050
March	1.3939	—	—	1.3989
June	1.3875	—	—	1.3906

Estimated volume 42 (489)
Previous day's open int 3,494 (3,220)

LIFFE-DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
Dec	0.3784	0.3803	0.3779	0.3795
March	0.3818	—	—	0.3829
June	0.3864	—	—	0.3865

Estimated volume 77 (51)
Previous day's open int 477 (472)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Dec	75-04	75-15	75-01	75-03
March	73-30	74-09	73-27	73-29
June	72-29	73-05	72-28	72-28
Sept	71-31	72-04	71-30	71-30
Dec	71-03	71-07	71-02	71-02
March	70-10	70-14	70-09	70-09
June	69-19	69-23	69-18	69-18
Dec	68-12	—	—	68-10
March	67-27	—	—	67-25

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	92.75	92.83	92.72	92.74
March	92.42	92.49	92.42	92.40
June	92.07	92.13	92.04	92.05
Sept	91.73	91.77	91.73	91.71
Dec	91.43	91.46	91.43	91.41
March	91.16	91.19	91.18	91.15
June	90.90	90.94	90.91	90.90

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	91.96	92.00	91.97	91.96
March	91.58	91.661	91.60	91.56
June	91.19	91.24	91.21	91.18
Sept	90.84	—	—	90.82

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	91.64	91.82	91.55	91.62
March	91.26	91.35	91.19	91.23
June	90.86	90.98	90.84	90.85
Sept	90.53	90.63	90.53	90.50
Dec	90.20	90.30	90.20	90.17
March	89.88	89.97	89.88	89.85
June	89.59	89.66	89.59	89.56
Sept	89.32	89.42	89.32	89.29

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
Dec	113-12	113-17	113-10	113-12
March	113-14	—	—	113-14
Sept	112-14	—	—	112-14
Dec	112-14	—	—	112-14

Estimated volume 1,604 (1,618)
Previous day's open int 3,847 (4,124)
Basis quote (clean cash price of 13½% Treasury 2004-08 less equivalent price of near futures contract) −6 to +4 (32nds)

10% NOTIONAL GILT SHORT GILT £100,000 64ths of 100%

	Close	High	Low	Prev
Dec	98-22	98-22	98-16	98-17
March	98-38	—	—	98-33

Estimated volume 468 (540)
Previous day's open int 1,778 (1,481)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev
March	89.57	89.57	89.54	89.55
Dec	89.11	89.12	89.09	89.10
June	89.63	89.63	89.61	89.60
Sept	89.62	89.62	89.58	89.60
Dec	89.65	—	—	89.60

Estimated volume 734 (1,347)
Previous day's open int 7,149 (7,261)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
Dec	132.95	132.95	132.25	131.95
March	133.95	—	—	132.95

Estimated volume 253 (177)
Previous day's open int 1,362 (1,345)

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
Dec	91.69	91.72	91.55	91.62
March	91.32	91.33	91.20	91.25
June	90.95	90.98	90.89	90.88
Sept	90.60	90.61	90.55	90.53
Dec	90.25	—	—	90.19

Estimated volume 6,588 (3,862)
Previous day's open int 21,184 (20,933)

U.S. TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Dec	75-06	75-14	75-01	74-31
March	74-00	74-03	74-02	73-28

Estimated volume 2,995 (1,803)
Previous day's open int 3,012 (3,009)

LIFFE—EURODOLLAR OPTIONS $1m points of 100%

Strike price	Calls—Last Dec	March	June	Vol	Puts—Last Dec	March	June	Vol
90.00	1.69	1.39	1.23	—	0.00	0.07	0.28	—
90.50	1.20	0.97	0.88	—	0.01	0.15	0.43	—
91.00	0.73	0.61	0.58	10	0.04	0.29	0.63	—
91.50	0.35	0.34	0.36	9	0.16	0.52	0.91	—
92.00	0.11	0.15	0.20	85	0.42	0.84	1.25	—
92.50	0.02	0.06	—	—	1.31	—	—	—
93.00	0.00	—	—	—	1.24	—	—	—

Previous day's open int. Calls 1,866, Puts 2,012

LIFFE £/$ OPTIONS £25,000 (cents per £1)

Strike price	Calls—Last Dec	March	June	Vol	Puts—Last Dec	March	June	Vol
1.20	20.92	20.92	20.92	—	0.05	0.75	1.67	—
1.25	15.92	15.92	16.54	—	0.22	1.61	2.79	—
1.30	10.92	12.08	13.09	—	0.72	2.73	4.34	—
1.35	7.06	8.87	10.13	30	1.86	4.52	6.38	—
1.40	4.09	6.26	7.65	202	3.89	6.91	8.80	22
1.45	2.11	4.24	5.65	8	6.91	9.89	11.90	172
1.50	0.96	2.77	4.08	10	10.76	13.42	15.33	—

Previous day's open int. Calls 8,453, Puts 15,647

LONDON SE £/$ OPTIONS £12,500 (cents per £1)

Strike price	Calls—Last Dec	March	June	Vol	Puts—Last Dec	March	June	Vol
1.20	21.40	21.40	21.70	—	0.20	0.85	1.70	—
1.25	16.40	16.60	17.00	—	0.25	1.60	2.70	20
1.30	11.50	12.60	13.50	—	0.85	2.80	4.40	—
1.35	7.50	8.70	10.00	—	2.00	4.50	6.30	—
1.40	4.40	6.50	7.50	—	4.15	6.90	8.80	40
1.45	2.25	4.00	5.70	67	7.20	9.70	11.70	80
1.50	1.15	2.70	4.20	—	10.90	13.10	14.90	—

Previous day's open int, not available

PHILADELPHIA SE £/$ OPTIONS £12,500 (cents per £1)

Strike price	Calls—Last Dec	March	June	Vol	Puts—Last Dec	March	June	Vol
1.20	—	—	—	—	—	—	—	—
1.25	—	—	—	—	—	—	—	—
1.30	—	—	—	—	—	—	—	—
1.35	7.05	—	—	1	1.95	—	—	1
1.40	3.95	—	—	6	4.10	—	—	15
1.45	2.05	—	—	24	—	—	—	—
1.50	—	—	—	—	—	—	—	—

POUND SPOT—FORWARD AGAINST POUND

October 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.4070-1.4135	1.4115-1.4125	0.45-0.41c pm	3.61	1.15-1.10 pm	3.18
Canada	1.9260-1.9380	1.9275-1.9300	0.55-0.50c pm	3.26	1.37-1.24 pm	2.71
Nethlnd.	4.21-4.23¾	4.22¾-4.23¾	2¼-2c pm	5.86	5⅞-5⅝ pm	5.43
Belgium	75.75-76.33	76.05-76.15	21-16c pm	2.92	60-51 pm	2.39
Denmark	13.56½-13.62	13.61-13.62	3¼-2⅜ore pm	4.08	9¼-8⅜ pm	2.57
Ireland	1.2107-1.2143	1.2130-1.2140	0.29-0.14p pm	2.08	0.72-0.57 pm	1.91
W. Ger.	3.73⅞-3.75¾	3.74¾-3.75¾	2¼-2pf pm	7.00	6¾-5⅜ pm	6.60
Portugal	228½-233	229-233	70-355c dis	−11.04	370-1360dis	−14.98
Spain	228½-229⅝	228½-229	15c pm-25 dis	−0.26	15-140 dis	−1.36
Italy	2522-2536	2532-2533	4-7lire dis	−2.61	14-18 dis	−2.53
Norway	11.13-11.20⅝	11.15⅝-11.15⅞	¾-1¾ore dis	−0.67	2¾-3¾ dis	−0.71
France	11.41¼-11.48⅜	11.44¼-11.45¼	2⅝-1¾c pm	1.83	3⅝-1⅞ pm	1.08
Sweden	11.27½-11.30	11.27½-11.28½	2⅜-3¼ore dis	−3.13	7¾-8¾ dis	−2.86
Japan	302¼-304⅝	302¾-303¾	1.41-1.30y pm	5.37	3.81-3.62 pm	4.90
Austria	26.24-26.37	26.29-26.36	15⅝-14gro pm	6.67	40⅞-36⅞ pm	5.81
Switz.	3.06½-3.09	3.07⅛-3.08⅛	2-1¾c pm	7.55	5⅜-5⅛ pm	6.82

Belgian rate is for convertible francs. Financial franc 76.85-76.95. Six-month forward dollar 1.80-1.85c pm. 12-month 2.95-2.80c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

October 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4070-1.4135	1.4115-1.4125	0.44-0.41c pm	3.61	1.15-1.10 pm	3.19
Ireland†	1.1605-1.1660	1.1640-1.1650	0.20-0.10c pm	1.54	0.55-0.25 pm	1.37
Canada	1.3664-1.3717	1.3665-1.3695	0.04-0.07c dis	−0.48	0.14-0.19dis	−0.48
Nethlnd.	2.9710-3.0020	2.9975-2.9985	0.05-0.02c pm	0.56	0.65-0.50 pm	0.39
Belgium	53.70-54.10	53.85-53.95	3-4c dis	−0.78	12-15 dis	−1.04
Denmark	9.60-9.66½	9.64-9.64½	1¼-1ore dis	−0.93	1¼-1¾ dis	−0.62
W. Ger.	2.6410-2.6630	2.6575-2.6585	0.77-0.72pf pm	3.36	2.15-2.10 pm	3.20
Portugal	162½-164½	163⅝-164½	160-300c dis	−14.98	400-1100dis	−18.35
Spain	161¼-162⅝	161¾-162	25-45c dis	−2.59	115-185 dis	−3.70
Italy	1785-1796⅝	1792-1794	9-10lire dis	−6.36	25½-27 dis	−5.85
Norway	7.89-7.92½	7.91-7.91½	2-3ore dis	−3.79	8¼-9¼ dis	−4.71
France	8.06½-8.12	8.10½-8.11½	1.75-1.30c dis	−1.61	4.50-4.90dis	−2.32
Sweden	7.97½-8.01	7.98½-7.99½	4¾-4¾ore dis	−6.76	12-12½ dis	−6.13
Japan	214.00-216.15	215.55-215.65	0.34-0.30y pm	1.79	0.84-0.83 pm	1.70
Austria	18.58½-18.69½	18.63-18.65	5-4gro pm	2.98	7¾-11¾ pm	2.68
Switz.	2.1700-2.1875	2.1780-2.1800	0.75-0.70c pm	3.98	2.02-1.97 pm	3.66

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible franc. Financial franc 54.40-54.50.

EXCHANGE CROSS RATES

Oct. 11	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.412	3.755	303.0	11.45	3.078	4.233	2533.	1.929	76.10
$	0.708	1.	2.658	214.6	8.110	2.180	2.998	1794.	1.366	53.90
DM	0.266	0.376	1.	80.75	3.051	0.820	1.128	674.9	0.514	20.28
YEN	3.300	4.660	12.38	1000.	37.79	10.16	13.97	8358.	6.367	251.2
F Fr.	0.873	1.233	3.277	264.6	10.	2.688	3.697	2212.	1.685	66.46
S Fr.	0.325	0.459	1.219	98.46	3.721	1.	1.375	822.9	0.627	24.73
H Fl.	0.236	0.334	0.887	71.59	2.705	0.727	1.	598.3	0.456	17.98
Lira	0.395	0.558	1.482	119.6	4.521	1.215	1.671	1000.	0.762	30.05
C $	0.518	0.732	1.946	157.1	5.936	1.595	2.194	1313.	1.	39.45
B Fr.	1.314	1.855	4.931	398.2	15.05	4.044	5.562	3328.	2.535	100.

Yen per 1,000: French Fr per 10: Lira per 1,000; Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

Oct. 11	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
Sterling	11⅛-11¼	11⅝-11¾	11⅝-11¾	11½-11⅝	11⅜-11½	11¼-11⅜
U.S. Dollar	7⅞-7⅞	7⅞-8⅛	8-8⅛	8⅛-8¼	8¼-8⅜	8⅝-8¾
Can Dollar	8-8⅜	8⅛-8⅜	8⅜-8⅝	8½-8⅝	8⅝-8⅞	9-9¼
D Guilder	6⅛-6⅜	5¾-6	5⅞-6	5⅞-6	5⅞-6	6-6⅛
Sw. Franc	1⅛-1¼	1¾-1⅞	4-4¼	4⅜-4½	4⅜-4½	4⅝-4¾
Deutschmrk	4⅛-4⅜	4½-4⅝	4½-4⅝	4⅝-4¾	4 11/16-4 13/16	4⅞-5
Fr. Franc	9⅜-9½	9¼-9⅝	9¾-9⅞	10⅝-10⅞	10¾-10⅞	11¼-11⅜
Italian Lire	15-17	13½-15½	13½-14½	13⅝-14⅛	13½-14	13⅝-14¼
B.Fr.(Fin)	—	8½-8¾	8¾-9	9-9¼	9¼-9½	9⅜-9⅝
Br.Fr(Con)	—	8½-8¾	8¾-9	9-9¼	9¼-9½	9⅜-9⅝
Yen	—	6 5/16-6 7/16	6 5/16-6½	6½-6 9/16	6½-6 9/16	6 7/16-6 9/16
D. Krone	9-9½	9-9½	9-9½	9-9½	9-9½	9⅛-9⅝
Asian $ (Sng)	8-8⅛	8-8⅛	8-8⅛	8⅛-8¼	8¼-8⅜	8⅝-8¾

Long-term Eurodollars: two years 9¼-9⅜ per cent; three years 9⅞-10⅛ per cent; four years 10¼-10½ per cent; five years 10⅜-10⅝ per cent nominal. Short-term rates are call for U.S. Dollars and Japanese Yen; others, two days' notice.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.4120	1.4078	1.4008	1.3933	1.3833
D-Mark	3.7525	3.7303	3.6905	3.6391	3.5482
French Franc	11.4500	11.4325	11.4216	11.4373	11.5036
Swiss Franc	3.0775	3.0589	3.0253	2.9813	2.9016
Japanese Yen	303.0	301.65	299.29	296.30	290.85

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu October 11	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	44.9067	+0.16	+0.94	±1.5425
Danish Krone	8.12857	8.02822	−1.26	−0.48	±1.6421
German D-mark	2.23840	2.21193	−1.18	−0.40	±1.1455
French Franc	6.86402	6.74647	−1.71	−0.93	±1.3654
Dutch Guilder	2.52208	2.49266	−1.16	−0.38	±1.5162
Irish Punt	0.724578	0.715240	−1.29	−0.51	±1.6673
Italian lira	1520.60	1492.14	−1.87	−1.71	±4.0856

Changes are for Ecu, therefore positive change denotes a week currency. Adjustment calculated by Financial Times.

MONEY MARKETS

All rather speculative

The Conservative Party conference passed without any cut in clearing bank base rates, and although the Chancellor of the Exchequer was optimistic about the UK economy in his speech to the conference there was no hint of an early reduction in rates. Attention will now turn to the Chancellor's speech at the Mansion House this week, but there is no strong anticipation in the City that interest rates are soon to be cut.

The rise of 1¾ per cent in sterling M3 money supply, announced last week, suggesting growth in the last six months at an annualised rate of 18½ per cent, had little impact on the money market or on gilt-edged trading. Both markets have been very quiet, believing that the sterling exchange rate is a greater influence on monetary policy than money supply.

UK clearing banks base lending rate 11½ per cent since July 30.

This has encouraged hopes that if the pound can reach $1.45 against the dollar, and hold steady against Continentals, the authorities may sanction a cut to 11 per cent in base rates.

This is all rather speculative however, but with the market so quiet, and rates stuck stubbornly around 11½ per cent, thoughts are bound to turn to a way of getting things moving again.

It may be premature to look for any help from the other side of the Atlantic, where the interest rate picture was particularly confused. U.S. M1 money supply rose by a very large $5.3bn in the last reporting week, but desposits trapped in New York banks during the attack of Hurricane Gloria were a major factor behind the figure. The U.S. Treasury's $5bn bill auction during the Government's problems in raising the debt ceiling also tended to distort the picture, and overall it seems there is no change at present in U.S. monetary policy.

MONEY RATES

(4 pm)

Prime rate	9½
Broker loan rate	8¾
Fed funds	7 15/16
Fed funds at intervention	(—)
Treasury Bills & Bonds	
One month	6.99
Two month	7.03
Three month	7.41
Six month	7.75
One year	8.03
Two year	8.94
Three year	9.30
Four year	9.63
Five year	9.84
Seven year	10.22
10 year	10.34
30 year	10.60

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 11	Oct. 4		Oct. 11	Oct. 4
Bills on offer	£100m	£100m	Top Accepted rate of discount	11.0503%	11.9008
Total of applications	£317.46m	£369m	Average rate of discount	11.0141%	10.9680%
Total allocated	£100m	£100m	Average yield	11.35%	11.27%
Minimum accepted bid	£97.246	£97.266	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	24%	100%			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

WEEKLY CHANGE IN WORLD INTEREST RATES

	Oct. 11	change		Oct. 11	change
LONDON			**NEW YORK**		
Base rates	11½	Unch'd	Prime rates	9½	Unch'd
7 day interbank	11⅜	−1/16	Federal funds	7⅞	+⅛
3mth interbank	11 9/16	+1/16	3 Mth. Treasury Bills	7.42	−0.20
Treasury Bill Tender	11.0141	+0.0461	6 Mth. Treasury Bills	7.74	+0.10
Band 1 Bills	11⅝	Unch'd	3 Mth. C D	7.96	+0.09
Band 2 Bills	11 9/16	Unch'd	**FRANKFURT**		
Band 3 Bills	11½	Unch'd	Lombard	5.5	Unch'd
Band 4 Bills	11 7/16	Unch'd	One Mth. Interbank	4.575	+0.025
3 Mth. Treasury Bills	11⅛	+⅛	Three month	4.675	+0.025
1 Mth. Bank Bills	11 15/32	−1/32			
3 Mth. Bank Bills	11 15/32	−1/32	**PARIS**		
TOKYO			Intervention Rate	9⅝	Unch'd
One month Bills	6.46875	+0.0625	One Mth. Interbank	9½	+1/16
Three month Bills	6.46875	+0.0625	Three month	9½	Unch'd
BRUSSELS			**MILAN**		
One month	8⅞	Unch'd	One month	14 1/16	+⅛
Three month	9⅛	Unch'd	Three month	14 1/16	+1/16
AMSTERDAM			**DUBLIN**		
One month	5 1/16	−1/32	One month	9⅜	Unch'd
Three month	5 11/16	+1/32	Three month	9⅝	Unch'd

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct. 11)

Three months U.S. dollars		Six months U.S. dollars	
bid 8 1/8	offer 8 1/4	bid 8 1/4	offer 8 3/8

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

Oct. 11	Ov'r-nig't	One Month	Two Months	Three Months	Six Months	Lombard In'v'ntion
Frankfurt	4.5-4.6	4.60-4.75	4.6-4.7	4.60-4.75	4.65-4.80	5.5
Paris	9 1/16	9 7/16-9 9/16	9 7/16-9 9/16	9 7/16-9 9/16	9 9/16-9 11/16	9⅝
Zurich	⅞-1⅛	—	4-4⅛	4⅛-4⅝	—	—
Amsterdam	5¾-5⅞	5 11/16-5⅞	—	5¾-5⅞	5⅝-5⅞	—
Tokyo	6.40625	6.46875	—	6.46875	—	—
Milan	14¼-14½	14-14⅝	—	13⅞-14¼	—	—
Brussels	9.80	8¾-9	—	9-9¼	9¼-9⅛	—
Dublin	8-8½	9¼-9⅛	9⅜-9⅝	9½-9¾	9⅞-10⅛	—

LONDON MONEY RATES

Oct. 11	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	8-10¾	11¼-11½	11⅝-11¾	11½-11⅝	11¼-11⅜	11 1/16-11 3/16
Sterling CDs	—	—	11⅝-11½	11 5/16-11 7/16	11-11⅛	10⅞-10⅝
Local Authority Depos	11⅛	11⅛	11½	11⅛	11⅛	11⅛
Local Author'y Bonds	—	—	12 1/16	11⅞	11⅝	11¼-11⅛
Discount Mkt Depos	1½-11½	11⅝-11¾	11¼	11	11	—
Company Depos	8-11⅝	11¾-11⅞	11⅞	11¾	—	—
Finance Hse Depos	—	—	11⅝	11 9/16	11¼	11⅛
Treasury Bills (Buy)	—	—	11 7/16	11⅛	—	—
Bank Bills (Buy)	—	—	11 15/32	11 15/32	10 15/16	—
Fine Trade Bills (Buy)	—	—	11 15/16	11 11/16	11⅛	—
Dollar CDs	—	—	7.85-7.95	8.05-8.15	8.15-8.25	8.5-8.6
SDR Linked Depos	—	—	7⅝-7⅞	7¾-8	7⅞-8⅛	8⅛-8⅜
ECU Linked Depos	—	—	8½-8⅝	8⅝-8¾	8¾-8⅞	8¾-8⅞

Treasury Bills (sell): one-month 11 5/16 per cent; three-month 11⅛ per cent. Bank Bills (sell): one-month 11 5/16 per cent; three-month 11 5/16 per cent. Treasury Bills: Average tender rate of discount 11.0141 per cent. ECGD Fixed Finance IV: September 4 to October 1 (inclusive): 11.897 per cent. Local authority and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 per cent from October 1 1985. Bank Deposit Rates for sums at seven days' notice 6.25-6.525 per cent (net). Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 11½ per cent; one-three months 11½ per cent; three-six months 11¼ per cent; six-nine months 11¼ per cent; nine-12 months 11 per cent. Under £100,000 10¾ per cent from October 2. Deposits held under Series 5 11 per cent. Deposits withdrawn for cash 7½ per cent.

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